

Queensland Audit Office

Checklist for CEOs, Boards and Accountable Officers, prior to signing financial statements

April 2006



Introduction

This Checklist is developed to assist financial statement preparers, CEOs, Boards, Accountable Officers and Audit Committees of public sector entities to discharge their duties and responsibilities by providing guidance and considerations before signing their entity's financial statements. The Checklist is a value-added publication which is aimed at assisting users in identifying the major issues that are likely to arise in the process of finalising the entity's financial statements and having them certified by the Auditor-General or delegate. The checklist is not definitive or exhaustive and should be tailored to reflect the circumstances of individual entities.

Within each section of the checklist there are a number of consider points and users should have regard to each point, where relevant. Any concerns about particular issues identified should be pursued and where appropriate further investigation should be performed by management to mitigate those concerns before financial statements are certified.

It is important to note that specific responses are not required from management through this checklist. Significant issues identified through the use of this checklist, however, should be included in the management representation letter to QAO. The provision of the management representation letter is now a mandatory requirement before the certification of the financial statements by the Auditor-General or delegate. A proforma copy of the management representation letter can be provided by your local QAO auditor and should be tailored to reflect the requirements of individual entities.

Overview

The consider points raised in the checklist encompass the following aspects of the entity —

- general governance environment;
- general internal control environment;
- preparation of financial statements;
- assets;
- liabilities;
- disclosures;
- electronic presentation of financial information; and
- transition to Shared Services Arrangements.

General governance environment

Has the CEO/Accountable Officer/Board/management taken reasonable steps to ensure that the following aspects of governance are satisfactory —

- Existence of an effective Executive Management Group/Board?
- Compliance with relevant legislation and regulations?

- Existence of an effective audit committee which acts in an independent, objective manner and is a specialist source of financial management advice to the accountable officer?
- The risks identified for the entity have been transferred and communicated between the Audit Committee and Risk Management Committee?
- All corporate accounting policies, practices and procedures are updated regularly and have been communicated to all staff, for example, via training sessions?
- The guidelines for developing and recording financial statement balances and accounting estimates are documented and uniformly understood?
- Existence of an effective internal audit function provided by an independent unit within the organisation which reviews accounting systems, internal controls and reports to management in a timely manner?
- The internal audit function as a whole, possesses the knowledge, skills and disciplines necessary to carry out its audit responsibilities?

General internal control environment

In relation to the entity's general internal control environment, is the CEO/Accountable Officer/Board/management satisfied that —

- Members of senior management have the background, training and experience necessary to enable them to discharge their responsibilities to manage and control the entity's operations?
- The information used to develop significant management estimates is sufficient, relevant, reliable and timely for its purpose?
- An adequate internal control structure exists to facilitate the preparation of reliable financial statements and maintenance of adequate financial records?
- Management has not sought to reduce or inflate reported results?
- Management's estimates, judgements or application of accounting standards are consistent with prior year's results and are reliable?
- Management was not aware of any irregularities involving any member of management or other employees that could have a material/significant effect on the financial statements?
- There are no known instances of fraud or misappropriation within the entity other than that already disclosed to the auditors?
- All changes in accounting principles during the period have been adequately reported in the financial statements?
- The aggregate effect of uncorrected financial report misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial report as a whole?

Preparation of financial statements

(Accountable officers should refer to the “Checklist for Preparation of Financial Statements” which can be accessed via the QAO website www.qao.qld.gov.au).

In the preparation of financial statements, is the CEO/Accountable Officer/Board/management satisfied that —

- The financial statement timetables have been agreed with external audit and endorsed by the audit committee?
- Management has met all requirements and milestones of the financial statement preparation timetable including deadlines?
- The financial statements have been ratified by the Audit Committee?
- There are no matters in the financial statements which could be considered to be misleading?
- A variance analysis (actuals to budget, and prior year actuals comparison) is performed and the explanations are accurate and accepted?
- The financial statements have been prepared pursuant to the *Financial Administration and Audit Act 1977* and/or other governing legislation and prescribed requirements?
- The prescribed requirements for establishing and keeping the accounts have been complied with?
- The statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the entity for the financial year ended and of the financial position as at the end of that year?

Assets

In relation to assets, has management taken reasonable steps to ensure that —

- The requirements of Division 5 of the *Financial Management Standard 1997* have been complied with, for example, each accountable officer and statutory body must manage the agency's assets efficiently and effectively, including, for example, developing and implementing systems for asset management and reviewing the agency's operations?
- The valuation of non-current assets are in accordance with Accounting Standards and, for Departments and Statutory Bodies, with Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*?
- Depreciable Non-current assets have been depreciated using an appropriate method and that the depreciation rates and residual values are reviewed regularly?

- As at the date of completing this checklist, management is not aware of any circumstances that would render the values of assets to be materially misstated?
- Where a Directors/Management valuation has been applied in intervening years between comprehensive valuations, the Board/CEO has obtained sufficient evidence about the appropriateness of the valuation indices, etc?
- In determining whether the valuation is at fair value, the Board/CEO obtained sufficient assurance from management that the present value of net cash flows, where applicable, supports the asset valuation?
- Where the entity has a material investment in a non-disclosing associated company, the Board/CEO obtained sufficient evidence to substantiate the value of their investment, e.g. that the Board/CEO has sufficient influence to obtain an independent audit opinion on the associate's accounts?
- Where the entity has a substantial investment in a non-disclosing private company, the Board/CEO has obtained sufficient evidence to substantiate the value of their investments in these entities?

Liabilities

In relation to liabilities, is management satisfied that —

- The requirements of Division 7 of the *Financial Management Standard 1997* have been complied with, for example, each accountable officer and statutory body must manage the agency's liabilities efficiently and effectively, including, for example, by developing and implementing systems for managing the agency's liabilities?
- All liabilities which have arisen or which will arise out of activities of the entity to the end of the financial year are included in the financial statements?
- There is adequate note disclosure, including maximum amounts of any liabilities that may arise, in relation to contingent liabilities in the financial statements?
- Other than as detailed in the financial statements, management is unaware of any breach or non-compliance with the terms of contractual arrangements which materially impact on the financial statements?

Disclosure issues

In relation to disclosures, is management satisfied that —

- There are no factors which would impinge upon the appropriateness of the entity continuing to be presented as a going concern?
- The disclosures comply with the prescribed requirements in respect of the establishment and keeping of accounts?
- There are adequate systems in place for recording and reporting GST within prescribed time frames?

- All controlled entities, joint ventures and associates have been identified and appropriately accounted for?
- All material related party transactions and balances are eliminated for consolidation purposes, and are appropriately disclosed in the financial statements where relevant?
- All contingent assets and liabilities recognised as at balance date have been appropriately disclosed?
- Management is satisfied that as at the date of certification of the financial statements, there were no items, transactions or events of a material nature which occurred post balance date which are likely to substantially affect the amount at which items are stated in the financial statements or which would require additional disclosure in the financial statements?

Electronic presentation of financial information

In relation to electronic presentation of financial information, is management satisfied that there are adequate security controls and procedures over electronic presentation including audited financial information and the independent audit report?

Shared Services Arrangements

In relation to the Queensland Government's Shared Services Initiative, is management satisfied that —

- There are clear lines of responsibility and accountability in relation to the financial management and stewardship of the entity?
- The audit committee has a role in reviewing and monitoring the quality and timeliness of financial statements prepared by a central bureau?
- There are appropriate policies and procedures in place to monitor the segregation of responsibilities between the shared service providers and individual agencies in relation to the management, maintenance and accountability of services and the ownership and access to information?
- There are established formal agreements for service provision at levels which are acceptable to the agency, including consequences if agreed service levels are not met?
- There is adequate internal audit involvement in the monitoring of internal controls?

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