

INFORM

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Our performance

All departments, statutory bodies and GOCs in Queensland, with a financial year ended on 30 June 2007 were required to prepare their 2006-07 financial reports and have them audited by the Auditor-General by 30 September, meaning that the three months from July to September are the busiest parts of our audit year.

The hard work has paid off and as at 30 September 2007, we had provided independent auditor’s reports for

all financial statements that we had received.

As part of these audits, our auditors made recommendations designed to improve the information systems and/or financial management of a number of public sector entities to their accountable officer or Board.

Details about these audits will be provided in an upcoming report to Parliament, expected to be tabled in mid-November.

News & Views

What happens after the audit field work is done?

We are often asked about what is really involved in our audits.

The main objective of our audits is to gather audit evidence so that we can express an auditor's opinion on the financial report prepared by our clients. This is the "field work" phase of the audit and it's the most visible activity to our clients. It's when our auditors are at your office performing audit testing procedures.

But there's more to an audit than just gathering evidence.

Once we have finished gathering audit evidence, we must assess that evidence to determine whether:

- enough audit evidence has been obtained
- the audit evidence obtained is relevant and reliable
- any issues have been identified that may impact on the auditor's opinion on the financial report.

When we assess the audit evidence, we are seeking reasonable assurance that the client's financial report is free of material misstatement and gives a "true and fair view" or is "presented fairly" in accordance with the applicable financial reporting framework.

Depending on other applicable legislative requirements, we may also be required to form opinions on other aspects of a client's operations, not necessarily related to the financial report.

Once management have certified the financial report themselves and we have formed an opinion on the financial report, we formally issue the auditor's opinion through an Independent Auditor's Report.

If we are satisfied there are no issues regarding the financial report, we will issue an "unmodified auditor's opinion". If there are outstanding issues that we believe may impact on the users' interpretation of the financial report, we'll issue a "modified auditor's opinion".

This may include the addition of an "emphasis of matter" paragraph in our auditor's opinion in certain circumstances. This may be to highlight an issue that has been appropriately disclosed in the financial report, without qualifying our opinion.

Where, however, we conclude there is an outstanding issue arising from a disagreement with those charged with governance, a limitation on the scope of the audit performed or a conflict between applicable reporting frameworks that has a material impact on the financial report, we will issue a "qualified" auditor's opinion in respect of that particular issue. This means that, except for that particular issue, the remainder of the financial report can be relied upon.

If we consider an issue to be so material and pervasive so as to impact the financial report as a whole, we will issue either an "adverse" auditor's opinion or "disclaimer" of auditor's opinion on the entire financial report. We do this to alert readers that the financial report as a whole is misleading or of little use to those readers.

Where issues are identified that may result in a modified auditor's opinion being issued, we endeavour to resolve these with our clients, to the extent possible, prior to issuing our final auditor's report. Those audits for which modified auditor's opinions have been issued are identified in the Auditor-General's Reports to Parliament.

"... there's more to an audit than just gathering evidence."

News & Views

Key principles of risk management

In recent years there has been a strong focus on risk management across both the private and public sectors.

Government needs to be able to handle risk both strategically and operationally and at the three key levels of whole-of-government, portfolio and agency. Therefore, public servants need practical guidance for adopting a holistic approach to risk management.

The Auditor-General's Report to Parliament No. 6 for 2007 Beyond Agency Risk brings together the findings from a performance management systems audit of risk management practices at 23 agencies. It provides an overview of

current practices and highlights issues across government.

While most agencies handle operational risk reasonably well, we had concerns about how strategic risk is managed. We identified opportunities for agencies to further integrate risk management practices with their existing business processes.

The audit also confirmed a need for a robust mechanism to identify, assess and manage risk effectively across agencies and government.

A set of key principles resulting from the audit form the basis of a better practice guide included in Report No. 6:



| | |
|--|---|
| Embed risk management in culture | Executive and senior management develop and foster a culture committed to risk management and drive integrated risk management. |
| Establish and review organisational context | Organisations establish and regularly review the context in which they operate. This includes defining the organisation's risk appetite and tolerance before developing or adopting a risk framework best suited to the organisation. |
| An integrated risk management framework | Risk management is integrated into planning, decision-making and reporting processes at each level and function of the organisation. |
| Document, implement and review contemporary risk management framework | Organisations should ensure all elements and process steps of the risk management framework are documented, implemented and operating effectively . |
| Risk management is a key element of governance | Organisations should ensure strong governance arrangements are in place to ensure effective accountability of risk management framework and strategies. |

QAO Annual Report

QAO's 2006-07 Annual Report, tabled in Parliament on 12 October 2007, is focused on strengthening accountability. The report is available on our website at www.qao.qld.gov.au.

Training & Industry

Financial statements using an “early close”

With John Harten, Assistant Auditor-General



In recent years, the Auditor-General has advocated “early closes” as a means of achieving earlier completion of financial statements.

It is a strategy which can assist both the entity preparing financial statements and QAO in compressing financial statement verification timeframes. An early close typically involves notionally closing the general ledger at a date prior to year-end, for example 30 April or 31 May, and:

- reconciling key accounts
- analysing account balances
- examining material transactions for the remainder of the financial year
- indexing asset valuations
- verifying physical balances through stock counts
- analysing current period transactions and balances to detect classification or posting errors
- establishing some predictive analysis against which to measure or compare the final year-end ledger.

This means that QAO can audit the results of these activities prior to the year-end balance date. Assistant Auditor-General John Harten, explains that by carrying out an early close, an entity is better placed to identify issues that could impact on its year-end processes and outcomes.

QAO’s year-end audit process can place significant reliance on a review of the movements between the date of the early close and the year-end balance date. However, management need to provide explanations for any material transactions occurring in the intervening period and variations from estimated outcomes.

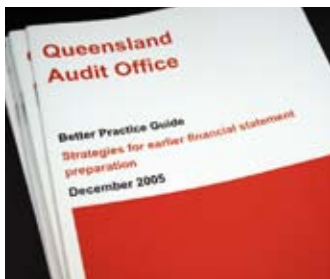
The Queensland Treasurer has proposed bringing forward the statutory reporting deadline for the completion and audit of public sector entities’ financial statements.

“Large public sector entities have been encouraged to attempt early closes over the past two years in preparation for what is being proposed as a statutory requirement from the 2007-08 financial year. For 2006-07 the majority of the large public sector entities attempted some form of early close, albeit with mixed success,” said John.

What worked well

The following strategies contributed to the success of early closes:

- detailed financial statement preparation timetables were prepared, agreed and monitored
- regular meetings were held between external and internal audit, finance staff and shared services providers (where applicable)
- presentations were made by finance managers to the accounting teams about what was required for early close
- all previous year audit issues were cleared by QAO early in the financial year
- key issues were resolved early by finance staff developing position papers and seeking audit sign-offs in a timely manner
- work was carried out by internal audit especially in relation to key reconciliations
- the financial statements were examined to assess which line items were suitable for early close and which should be excluded, e.g. where there would be material movements between the early close date and balance date.



What could be improved

The following issues contributed to some early closes not being fully successful:

- timetables and key milestones were not clearly understood and monitored by all parties
- the purpose of the early close reviews was not clearly understood which resulted in not all of the required information being captured and provided to QAO
- some key issues were not resolved during the early close
- finance resourcing shortfalls arose because the extent of work required for an early close was underestimated
- quality workpapers and/or key finance staff were not available to support the early close.

Other observations

While most large entities that attempted early closes in 2006-07 were successful to varying levels, our auditors noticed:

- duplication of some audit work caused by reworking numerous versions of the financial statements
- extra audit work required for variance analyses between early close and balance date
- entities which have robust monthly reporting processes achieved greater success with early closes in 2006-07.

John says that entities need comprehensive monthly reporting processes in place, to the same standard as year-end processes to allow management to identify and address issues that have the potential to adversely affect the year-end preparation of their financial statements.

“Good financial management throughout the year enables better management of risks and a more efficient financial statement process. With tightening timeframes, it is no longer enough to only rely on year-end financial reporting processes to produce the financial statements.”

Through regular reporting, processes such as calculating and estimating accruals, performing reconciliations, processing journal entries and clearing suspense accounts can be streamlined and simplified.

Preparation of trial-run financial statements early in the financial year could also be considered to ensure information from various sources can be readily collated into the financial statements.

For larger organisations which gather financial and other information from a number of sections or locations, financial statement preparation “packages” which detail the format of the information required can be prepared and provided in line with the “early close” timetable.

“The Auditor-General strongly supports the early completion of financial statements to improve the accountability of the public sector to Parliament and the community,” said John.

In recent years, timeframes have been agreed informally at officer level rather than directly with the Auditor-General. For the 2007-08 financial year, we will be reinstating a more formal protocol between the Auditor-General and accountable officers to ensure enough time is allowed to audit the financial statements within the statutory timeframe. The agreed timeframe must include a minimum of ten clear working days for QAO to audit the financial statements.

“Good financial management throughout the year enables better management of risks and a more efficient financial statement process ...”

► A Checklist for the Preparation of Financial Statements has been developed by QAO based on experiences of better practice noted at client agencies. This checklist may assist entities to implement an early close. It is available on our website www.qao.qld.gov.au.

Training & Industry

Our audit teams explained

QAO's financial and compliance audits are delivered by many audit teams. The composition and size of the teams varies depending on the size, nature and complexity of the client's operations.

All team members have specific roles and responsibilities for delivering the various facets of the audit. A typical audit team is explained below.



| Roles | Responsibilities |
|---|---|
| Engagement quality control reviewer | The engagement quality control reviewer evaluates the significant judgements and conclusions reached by the audit team on specific audits. |
| Engagement leader | An engagement leader is assigned for all audits. They are responsible for the overall performance of the audit team, delivery of the audit service, managing the relationship with the public sector entity, reporting the audit findings and determining the auditor's opinion provided on the financial report. |
| Team leader | The team leader is responsible for the day-to-day management of the audit in accordance with the approved audit strategy and handling complex accounting matters. The team leader reports to the engagement leader. |
| Auditors with varying levels of experience | These staff perform audit tasks such as documenting and assessing controls in each system and testing the client's transactions and financial report balances. |
| Information systems auditors | Information systems auditors assess the effectiveness of information technology and communications operations of the governance structure and audit various aspects of these operations. |
| Specialist auditors | To complement our existing audit skills, we use the expertise of the treasury products specialist auditor to assist the engagement leader conduct the audit of financial assets and liabilities. We also use specialist taxation auditors to consider whether tax paying entities have applied tax effect accounting appropriately. |

News & Views

Financial instrument disclosures

From 1 January 2007 Australian Accounting Standard AASB 7 *Financial Instruments: Disclosures*, issued in August 2005, must be adopted by all public sector entities.

The Treasury Department adopted this standard early for all departments and statutory bodies for the 2006-07 financial year.

In brief, for all risks arising from financial instruments, entities must now disclose:

- the significance of financial instruments for the entity's financial position and performance
- qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk
- a sensitivity analysis showing how profit or loss and equity would have been affected by changes in risk variables.

The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk. Together, these disclosures provide an overview of an entity's use of financial instruments and the related risk.

Further information is available on the AASB website at www.aasb.com.au.

GRADtecs 2008

2008 is fast approaching and we're already getting ready to finalise our next intake of graduate auditors.

Having already offered nine places in QAO's GRADtecs 2008 Development Program, we also advertised in October to attract more graduates, ensuring we continue to build a solid foundation for our future.

Public sector auditing provides a diversity of experience for graduates with degrees in accounting, commerce and business and information systems. Our GRADtecs Development Program offers graduates great opportunities for technical training, personal development and hands-on audit rotations in our financial and compliance, information systems and performance management systems audit teams.

For further information refer to our website www.qao.qld.gov.au or contact our Graduate Co-ordinator at qao.recruitment@qao.qld.gov.au.



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Editor: Kaylene Cossart

Designer: Liz Cox, Alison Wright

Contributors: Debra Stolz, Val Manera, Terry Campbell, John Harten, Peter Tognolini, Natalie Molloy, Kathleen Hayward, Clemencia Thomson.

If there is anything you would like to see featured in **INFORM** or you have an interesting story idea or picture you'd like to contribute, please contact us at Inform@qao.qld.gov.au or on (07) 3405 5003.

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Five minutes with ... Clemencia Thomson, Audit Senior



The abridged version of what led you to join QAO and what you did previously?

For me, the main attraction was not only the desire to continue my career in auditing, but also the parallels to my previous position as a financial auditor with the Government Audit Office in my home country of Colombia.

After completing my accountancy degree in Colombia, I worked as an accountant for a number of private entities before joining the Government Audit Office (GAO). I enjoyed the speciality of auditing compared to general accountancy. Although this was an excellent position, I wanted to expand my horizons and after three years at GAO, I moved to England. I studied English at Cambridge University and supported myself with various jobs, including selling programs at the English National Opera. I spent five and a half years in England, which gave me the opportunity to travel around Europe - visiting France, Germany, Belgium and Austria to name just a few destinations.

After returning to Colombia, I rejoined GAO for another two and a half years. At this time, I had received my Australian professional migrant Visa. I arrived in Australia in 1996 and upgraded my qualifications at QUT. While studying, I worked part-time teaching Spanish and at the finance department of The Catholic Social Response. Then in 1997, I joined QAO.

The best thing about my current position?

There are many elements of my position in IS Audit that I really enjoy. Working in financial audit was challenging and

fulfilling, however IS Audit is a very dynamic area with the constant evolution of new information system technologies.

The variety would be the best thing about my position. Not only the new systems and procedures I am working with, but the many and varied types of people I meet.

Your experience with flexible working arrangements?

This is an element of working at QAO that I really can't praise enough. In many cases, I think it can be a real problem for women who want to have a family, but also want to maintain a career. Having done so much for my career, it would have been a great loss to me to have to choose between family and work.

It is excellent to have the flexibility to take the time I needed to spend with my new daughter, and then return to work part-time on the days that best balance my family and work life. It is wonderful to have a child and spend time with them, but I really need the interaction of a work life as well to keep balance and perspective. There should be more of it!

Who do you admire and why?

Carlos Santana. He is in my opinion the best guitar player in the world. He taught himself to play from age 11, and is still a very humble and beautiful character.

Professionally in the next year I want to ...

Undertake additional studies in information technology. I am also interested in doing some special investigations.

My personal motto is ...

Never stand when you can lean. Never lean when you can sit. Never sit when you can lie down!