Financial statement preparation maturity model 2019

The Queensland Audit Office (QAO) has developed a financial reporting preparation maturity model. The new model is entity driven and is scalable to entities' sizes and complexities. It aims to bring flexibility in responding to the qualitative factors that influence entities' practices.

The model facilitates sharing of better practices across the public sector. It also brings focus to entities' areas of development to allow them to reach their targeted positioning.

The components and elements of the model build on our previous assessment processes for the timeliness of draft financial statements, the quality of financial statement preparation, and year end processes.

This new approach replaces our previous assessment processes.

Effective preparation processes

The model outlines the key components that result in high-quality and timely financial reports. The four components for effective financial statement preparation processes are:

- quality month end processes and reporting
- early financial statement close processes
- skilled financial statement preparation processes and use of appropriate technology
- timely identification and resolution of financial reporting matters.

Each of these four components has elements describing the level of maturity within the financial statement preparation maturity model.

The four levels of maturity per component are:

- developing
- established
- integrated
- optimised.

Effective financial statement preparation processes will allow finance staff to reduce the time they spend preparing, and controlling the quality of, their financial statements. This will give them opportunities to undertake other important finance activities.

Entity assessments

The model is entity driven. This means each entity sets their own expectations of maturity and assesses their practices to determine if they have met them.

Entities should set a level of maturity that is reflective of their size, complexity, age, and structure.

QAO does not expect that all entities will sit in the integrated and optimised categories, nor always aim to be in those categories. Entities should always consider the cost of moving categories in the context of the benefits that will be provided.

How to set your maturity expectation

Entities should establish an expectation that is commensurate with their business. The desired positioning of maturity will differ depending on the size and complexity, and available resources, of each entity.

Government departments are often restructured as part of machinery of government arrangements. We, therefore, do not expect that they will always sit in the optimised category.

Entities that are subject to an internal restructure, or changes to program delivery or major systems, may also adjust their expectations during the change period.

When setting maturity levels, entities should consider time frames and policies that are outside of their control. Those that are subject to major oversight by another entity may not be able to achieve the integrated and optimised categories. Entities should acknowledge this in their self-assessments.

QAO's guide to expectations of maturity for entity types

We have set out categories for three types of entities, which can be used to guide individual entity expectations:

1. Large and/or established—dependent on employee numbers, complexity of business activities, and length of time of current structure
2. Newly established—less than three years in current structure
3. Small—less than 50 employees.

Entities that don't fit into the categories above can use these expectations to guide their benchmarking.

QAO's expectations are a guide only, and entities can set their own expectation of maturity depending on individual circumstances.

Self-assessment tool

We have prepared an assessment tool for understanding where entities sit on a maturity scale for effective preparation processes.

The tool should allow entities to highlight areas for targeted improvement.

Reporting self-assessment results

If they perform a self-assessment, entities can choose their internal reporting process. Audit committees will receive feedback from QAO, and chief financial officers may choose to also report their assessments.

QAO's assessment process

Using an entity's self-assessment

If entities perform a self-assessment, we will review and provide feedback on it. This is QAO's preferred approach as it relies on the in-depth knowledge held by each entity.

QAO's assessment

QAO has moved to a principle-based assessment approach. There will be judgement involved in the assessment process.

QAO's assessment of the level of maturity for each component, along with the expectation of maturity, will incorporate:

1. an understanding of the complexity and number of business activities.
   For example, an entity with a small number of assets will not be directly comparable, and have the same expectation, as an entity with complex assets
2. an understanding that each entity is different. Programs, assets, systems, resources and maturity will affect entities differently. We will assess all entities individually and will not classify them as large and/or established as a default position
3. QAO's judgement will need to be applied across each of the categories to determine, on-balance, where the assessment of maturity sits for each component.

   Further, quality control mechanisms, policies and procedures, and decentralised operations will all impact our assessment.

   QAO will discuss its judgements with you and will use the self-assessments to bring in your management's perspective.

Reporting by QAO

The aim of the maturity model is to identify areas for improvement.

We will continue to report the outcomes of our assessments to those charged with governance. This is likely to include audit committees and directors-general/chief executive officers. We will continue to report deficiencies and significant deficiencies in internal controls and financial reporting processes. We will choose where we report those matters depending on the magnitude and potential impact.

Any themes emerging across the public sector may be included in our reports to parliament. Better practices may also be reported to parliament and other organisations.

Refinement of the model and self-assessment tool

Please provide feedback via your QAO contact on the new financial statement preparation maturity model. The model and self-assessment tool will be updated with feedback.

Glossary

Ad hoc—when needed, but not regular or scheduled.

Allocation of resources according to risk—matching skill of the preparer and reviewer with the risk of error or misstatement. The higher the risk, and judgement, the greater the skill.

Asset valuation challenge and oversight—management's assessment of the asset valuation process including methodology, assessments, assumptions and outcomes.

Audit committee oversight—audit committees support the integrity and transparency of financial statements, and usually provide assurance to the accountable officer on the financial reporting process. See QAO's blog post Role of audit committees.

Audit testing—the risk-based audit procedures undertaken over the systems, transactions, balances and disclosures of entities.

Automated reconciliations—tools and systems that perform reconciliation without manual processes. Automated processes are usually more reliable, standardised, and timely.

Bias—not retaining neutrality when exercising judgement. Assessed by understanding the balance of information, the intent of the outcomes, and opportunity.

Early close—performing financial statement preparation before balance date. See QAO's fact sheet Assessing financial statement preparation for state government entities.

Early financial statement close processes—the processes used to prepare an early close may incorporate preparation of notes to the financial statements, determining reporting balances such as asset valuations and predictable balances, and preparing estimates.

Financial reporting risk—risk of error or misstatement in the financial report.

Integration of reporting—using common attributes, data or processes to prepare reports for differing audiences.

Internal controls—ensure compliance with laws; manage risks; and support reliability of financial reporting, safeguarding of assets, and efficient and effective organisations. There are five key components of internal controls: environment, risk assessment, monitoring, information systems and communication, and activities.

Management reporting—reports providing insights and explanations of organisational performance. Good reporting provides the right people with the right level of information at the right time. See QAO's blog post Effective management reporting blog.

Month end processes—monthly processes to close and reconcile activities for that period. The processes enable reporting of the financial position and performance for that period.

Position papers—key record of decisions for accounting matters and the outcomes of valuation. See QAO's fact sheet Preparing position papers for accounting and valuation.

Proforma financial statements—financial statements prepared before the balance date based on information available at that point in time, and assumptions about future events. The proforma financial statements should include comparatives and can include current year expected outcomes.

Quality review—the oversight and checking of a process or information. It is performed by a suitably skilled and positioned officer.

Robust—strong, and unlikely to fail.

Sensitivity analysis—change in outcome as a result of the change in input. Some inputs and assumptions are highly variable, and a range of outcomes shows the sensitivity to changes in those inputs and assumptions.

Shared services—provision of operational activities with similar characteristics to multiple organisations. There are internal controls within shared service providers and monitoring controls with the user entities.

Year end close process—there are five key elements of an effective process to prepare the financial statements: preparing proforma financial statements; resolving known accounting issues before balance date; completing non-current asset valuations before balance date; completing early close processes; and completing asset stocktakes before balance date.

Component	Developing	Established	Integrated	Optimised
Quality month end processes Reconciliations Reporting Internal quality controls	Month end processes refer to the close out of the current posting period and preparation of analysis reports. Quality month end activities provide greater efficiencies in the preparation of year end reporting. Data quality, quality checking and internal reporting are the areas of focus.			
	• Policies and processes are not documented. • Limited reconciliations are performed, and/or there are limited internal controls over the reconciliations. • Monthly reporting is on a cash basis or limited accrual basis. • Internal financial reporting practices are basic and allow for day-to-day functioning. Reports do not always support management decision-making and additional reports are prepared for that purpose. • Month end reporting is sometimes not timely, accurate or complete. Month end processes often take up to two weeks. • There are no internal controls over month end processes, and management reports. • Reports are lengthy and difficult to interpret; management does not make decisions from the report.	• Policies and processes are generally up to date and generally understood. • Manual reconciliations are performed for some accounts, including all material accounts. • Estimates and accruals are used for material accounts. • Reports could be refined—often too information-heavy, minimal use of graphics, and no highlighting of key messages. The users can't quickly consume the results and need to read and interpret much of the report. • Month end reporting is generally timely, accurate, and complete. Month end reporting can often take between one and two weeks. • Variance explanations only summarise the movement. If there is no cause or corrective action, the users gain no insights.	• Policies and processes are updated where required and understood. • Reconciliations are prepared for all accounts, with some level of automation. • Estimates and accruals are used every month and adjusted periodically where appropriate. • Internal financial reporting practices provide key analysis and points for decision-making. They include financial performance metrics and identify some opportunities to improve performance. The length of the report is suitable for user needs. • Month end reporting is timely, accurate, complete and prepared regularly free from bias, errors or material misstatement. The time taken to prepare management reports has reduced over time and is at a level considered suitable for the organisation's complexity. • Variance explanations include root cause analysis and provide business insights.	• Policies and processes are reviewed regularly, updated with consultation and are well understood. • Automated/partially automated reconciliations are performed for all accounts. Management has monitoring controls in place. • Estimates and accruals are aligned to external reporting standards, used every month and adjusted periodically where appropriate. • Internal financial reporting practices meet all user needs. Reports include operational and financial metrics, aligning each business unit to the wider strategic plan and key objectives. The reporting practices anticipate changing user needs. • Month end reporting is timely, accurate, complete and prepared consistently free from bias, errors or material misstatement. Time spent on the monthly close process has reduced over time. • Variance analysis contains insights and sensitivity analysis. The analysis includes prospective information.

Component	Developing	Established	Integrated	Optimised
Early financial statement close processes	These are the accounting procedures undertaken to close out future account balances in the current posting period. Early close processes are performed before the balance date and are not fully re-performed during the financial statement preparation process. They usually include fair value measurement for property, plant and equipment; major estimates and judgements; material note preparation; and stocktakes.			
Early close Audit and audit committee relationships Asset valuation Stocktakes Supporting policies and procedures	• Early close procedures are either not completed or are minimal, and all major financial statement working papers are prepared after year end. • Month end processes are not used to support financial statement working papers. • External auditors are not engaged to discuss or perform early financial statement procedures. • Asset valuations are not always performed before year end. The documentation of policies, processes and procedures relating to asset valuations could be improved. • Stocktakes are not performed before year end. Stocktake policies, processes and procedures are not always well documented.	• Early close tasks are performed for some balances. A formal project timetable is not always prepared. • Early close procedures are partially documented and updated as required. • Month end processes are considered and partly integrated into financial statement working papers. • Estimates, assumptions and predictive figures are considered. There is some duplication of effort in preparing financial statements. • There is coordination of external auditor and financial statement preparation work programs. • Full and interim asset valuations are performed before year end. Management conduct and document a review of the external valuers' report. Results are approved, recorded and reconciled by year end. Policies and procedures are documented. • Stocktakes are performed in a timely manner and the reconciliation to accounting records analysed for any material variances. Stocktake policies, processes and procedures are documented and updated as required.	• Early close procedures are performed for most balances. They are well documented and reviewed regularly. • A project timetable, with audit committee oversight, for the preparation of financial statement working papers is prepared. • Estimates, assumptions and predictive figures are well considered, and yearly changes are analysed and documented. • There is coordination of external auditor and financial statement preparation work programs, with audit testing balances prepared by management before year end. • Full and interim assets valuations are performed before year end. Instructions are provided to valuers outlining a detailed scope. Management conduct and document a review of the valuers' report, and challenge the inputs and assumptions applied. Results are approved, recorded and reconciled as part of early close processes, with disclosures reflected in proforma statements. • Stocktakes are performed in cycles relevant to business risk, and results reconcile to accounting systems. Policies, processes and procedures are reviewed in a two-year cycle.	• Entities undertake risk assessments of the financial statements, to ensure the early close effort is focused. Procedures are well documented and reviewed regularly. • There is management focus for continual improvement in early close processes. A project timetable clearly identifies all information requirements. • Audit committees provide a robust oversight of the financial statement preparation process and estimates. • There is a clear coordination of effort with external audit. • Estimates, assumptions and predictive figures are thoroughly considered and documented. • Management challenges the status quo for the timing of full and interim asset valuations, and completes them at the most effective time. • Clear instructions are provided to external valuers regarding the valuation technique, inputs, indexation, and sampling. The scope anticipates changes. Management conduct and document a robust review of the external valuers' report. • Stocktakes are performed in cycles relevant to business risk, are well documented, results reconcile to accounting systems, and there is thorough analysis and reporting.

Component	Developing	Established	Integrated	Optimised
Skilled financial statement preparation processes and use of appropriate technology	High quality, timely financial statements are prepared using skilled staff, appropriate systems and sufficient processes that rely on high-quality data sources and effective internal controls.			
System Staff skills Data quality Internal controls Tailored disclosure	• Financial statements are manually prepared using non-tailored software, such as spreadsheets. • Risk of material misstatement has not been assessed by management. Estimates and assumptions are updated on an ad hoc basis. • Quality review processes do not always identify errors. • Reliance on generic or templated disclosure. Disclosures are not streamlined, do not always reflect operations and may contain immaterial or irrelevant information. • Proforma financial statements are not prepared, nor reviewed by audit committees. • Roles and responsibilities for financial statement preparation are not defined and tasks are assigned according to availability rather than skill. • There is limited specialised training of staff. • Workload is usually excessive to prepare the financial reports and overtime is consistent through the process. • Statutory and management reporting are not integrated.	• Financial statement preparation is partly automated using specialised software, with manual updates and adjustments. • Management are aware of areas at risk of misstatement. This is not always reflected in resource allocation and level of quality review. • Estimates and assumptions are considered by accounting staff, but not approved by audit committee. • Disclosures are mostly tailored, reflect operations and contain mostly only relevant material information. • Proforma financial statements are prepared, but not always in a timely manner, and are not improved on each year. • Roles and responsibilities for financial statement preparation are established, but there are some areas of confusion and overlap. There is some specialised training of staff on an ad hoc basis. • Workload may be excessive to prepare the financial reports, and some overtime is worked. • Statutory and management reporting have been made consistent in some areas, with manual intervention required.	• Financial statements are prepared using software that automatically integrates with the general ledger only. • Risk of material misstatement has been assessed by management, and resources allocated accordingly. Quality control processes identify most errors prior to external audit. • Estimates and assumptions are well considered and documented. There is some sensitivity analysis performed. • Disclosures are streamlined and reflect operations. • External audit is engaged to discuss the financial report. • Proforma financial statements are prepared and approved by audit committees before year end. • Roles and responsibilities are well defined and communicated. There is appropriate, timely training. Workload is mostly managed throughout the preparation process with limited overtime worked. • Statutory and management reporting have been made consistent, with some manual intervention required.	• Financial statements are prepared using software that automatically integrates with the general ledger, and other key data sources. • Management has undertaken a financial statement risk assessment and identified areas at greater risk of fraud or error. Resources are allocated accordingly. Quality control processes identify errors. • Financial statements are tailored according to the risk assessment performed by management and respond to the needs of users. • Management has included a financial reporting risk in their risk register and applied appropriate risk treatments. • Estimates and assumptions are thoroughly considered and documented. They are approved, together with sensitivity analysis, by the audit committee. • High-quality proforma financial statements are prepared and approved by the audit committee. • Roles and responsibilities are clearly defined. There is organisational knowledge of the roles and responsibilities, training is appropriate and timely, and workload is managed. • Statutory and management reporting is consistent.

Component	Developing	Established	Integrated	Optimised
Timely identification and resolution of financial reporting matters	The timely resolution of financial reporting matters relates to areas of accounting and presentation that require judgement and have a range of potential solutions. Financial reporting matters include the application of new accounting standards, and reporting of new and/or complex transactions in a timely manner.			
Matters are identified Analysis performed Consultation	• New accounting issues are not always identified or responded to except at a high level. • There is reliance on central agencies for support for determining accounting positions. • Position papers are not usually prepared. • Minimal understanding of the options for the presentation of new standards or transactions in the financial statements. • Large, new or complex transactions are not presented in financial reports from a user's perspective. • No engagement with external audit regarding accounting issues until the financial statements are prepared. • The audit committee is not consulted, or not consulted in a timely manner.	• An assessment is undertaken to identify all major accounting issues, but not always in a timely manner. • Position papers are prepared that detail the accounting issue, an assessment of the alternatives available, applicable prescribed requirements, some consideration to qualitative and quantitative impacts, and the concluding position. • High-level disclosures are reflected in proforma statements. • Engagement with external audit to ensure developments surrounding the audit issues are communicated in a somewhat timely manner. • Engagement with the audit committee is sufficient, but information quality could be improved in some instances. • Financial reporting matters are discussed with the audit committee at year end and not progressively throughout the year.	• A comprehensive assessment is undertaken to identify all accounting issues. • Comprehensive position papers are prepared and signed off by management that detail the accounting issue, an assessment of the alternatives available, applicable prescribed requirements, qualitative and quantitative impacts, and the concluding position. • Proforma financial statements are updated to disclose financial reporting matters, including qualitative and quantitative impacts. • Ongoing engagement with external audit to ensure developments surrounding the audit issues are communicated in a timely manner. • The audit committee is provided with accounting issues in a timely manner.	• A comprehensive assessment is undertaken to identify all accounting issues. This is regularly re-assessed by management. • A forward work plan identifying future accounting matters is prepared, resources are allocated according to risk, and the plan is approved by the audit committee. • Comprehensive position papers are prepared and signed off by management that detail the accounting issue, a thorough assessment of the alternatives available, applicable prescribed requirements, qualitative and quantitative impacts, and the concluding position. • Ongoing engagement with external audit to ensure developments surrounding the audit issues are clearly communicated in a timely manner. • The accounting position papers are reviewed and approved by the audit committee in a timely manner.

Expectation of maturity—benchmarking tool

The following table sets out the range of expectations for financial statement preparation maturity by entity type. Entities can use this to benchmark their own self-assessment.

Component		Developing	Established	Integrated	Optimised
Quality month end processes	*Larger or established*				
	Newly established				
	Small				
Early financial statement close process	*Larger or established*				
	Newly established				
	Small				
Skilled financial statement preparation and use of technology	*Larger or established*				
	Newly established				
	Small				
Resolution of financial reporting matters	*Larger or established*				
	Newly established				
	Small				

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