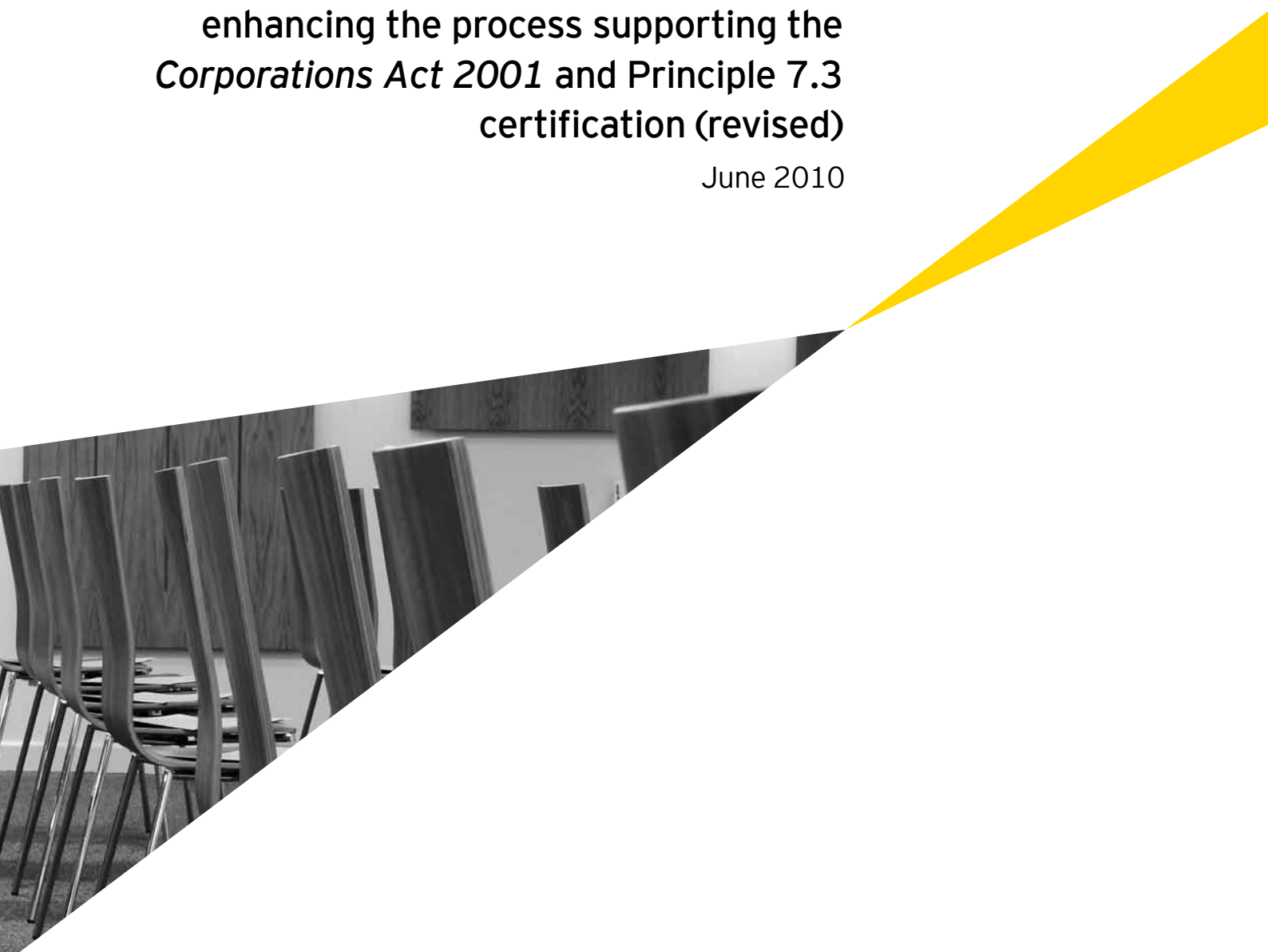


Financial reporting certification

A practical guide to implementing and
enhancing the process supporting the
Corporations Act 2001 and Principle 7.3
certification (revised)

June 2010



GROUP OF 100

ERNST & YOUNG
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Foreword

In 2007, the Group of 100 (G100) and Ernst & Young published *A practical guide to implementing and enhancing the process supporting the Corporations Act 2001 and Principle 7 certification*. This was in response to a perceived need for practical guidance to support the financial statement certifications provided to boards by CEOs and CFOs.

We committed to update the 2007 publication on an ongoing basis in response to changes in the regulatory and economic environment. We also welcomed your comments and suggestions on scope, content and style to ensure it remained current and relevant to users.

To this end, we are pleased to present you with the 2010 revised edition of this guide. While the revisions to the *Principles of Good Corporate Governance* were anticipated at the time of publishing the original guide, they had not yet become effective. Therefore, this revised guide reflects:

- ▶ The impact of these revised principles and recommendations
- ▶ The changes in operating conditions and the perceived impact of events such as the global financial crisis
- ▶ Your feedback based on how certification programmes have developed within your organisations over recent years

We continue to commend this publication to both G100 members and others and hope you find it useful in implementing a framework and process for your organisation, or enhancing your existing systems.

As before, the G100 and Ernst & Young commit to further revisions in the future as required by changes in the principles and recommendations, as generally accepted practices evolve, and/or implications of regulatory or economic environment change. As always, we welcome your comments and suggestions for improvement.

Finally, we would like to acknowledge and thank those who provided their thoughts and insights regarding any changes they had observed since 2007, for their time and input.



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Table of contents

1	Overview
3	Chapter 1 - Introduction
4	Designing a process to support certification
5	Certification requirements for Australian companies
6	Scope
8	The Risk Universe
9	Chapter 2 - Designing a process to support certification
10	Process
12	Roles and responsibilities
13	Developing the ICQ - Challenges and insights
15	Chapter 3 - Financial reporting risks questionnaire
16	What to include in the ICQ
16	Accounting and financial reporting risk
18	Internal control risk
20	Fraud and corruption risk
22	Regulatory and policy compliance risk
22	Record keeping risk
23	Appendices
24	Appendix 1 Illustrative ICQ coversheet/instructions
25	Appendix 2 Illustrative sign-off (below CEO/CFO level)
26	Appendix 3 Illustrative CEO/CFO statement
27	Appendix 4 Questionnaire

Certification is an exercise in change management. It is about creating and influencing the culture of an organisation, communicating effectively, as well as being a technical and compliance exercise.

Overview

Certification of financial statements, and underlying risk management, internal compliance and control systems, is a key feature of the governance framework both in Australia and internationally. The certification programme under Principle 7 of the ASX's Corporate Governance Principles was introduced in early 2000, following a number of high profile corporate failures. In the wake of recent court decisions on directors' obligations, we are now seeing directors ask more probing questions about what the certification process involves.

This guide is intended for use by the CEO and CFO when formulating or enhancing a process to support certifications they are required to make to the board of directors.

Relevance to boards

The board of directors (through the audit committee) rely on CEO and CFO certifications in meeting their responsibilities for the financial statements. They will have significant interest in the certification process and its development.

With the global financial crisis and a number of high profile corporate cases putting greater scrutiny on financial reporting, boards and audit committees are more directly involved and actively interested in the certification process and its results.

The Australian regime

The certification regime in Australia has not changed and remains considerably less prescriptive than that adopted in some other countries. This is most noticeable in the United States where companies are subject to the certification requirements of the *Sarbanes Oxley Act*, sections 302 and 404.

While it is generally agreed that the Australian approach to certification is more desirable, the lack of prescription has meant some uncertainty around the process that should be in place to support the certification sign off.

The challenge

The fundamental concern with certifications is the risk that people may sign off without understanding the detail. If a problem is identified and further investigation reveals a certification with a clean sign off, the consequences are significant for both the organisation and the signatories.

We are seeing significant moves to manage this risk. Directors are increasingly asking internal and/or external audit teams to verify and validate the substance behind certification and provide them with supporting evidence. Teams are using sophisticated systems controls testing to facilitate verification. Senior management are investing in ongoing education and communication to reinforce the importance and seriousness of the process.

Companies are emphasising that it is preferable to say "no, not sure" as a prompt for further discussion rather than to answer "yes" and hope for the best. We will consider later in this guide how it is important to ensure this does not lead to a culture where uncertainty becomes the default position and people avoid taking responsibility.

A crucial element is to review all the responses holistically so if there are concerns within the business units, someone can ask why it has not been reflected in the certification. In order to connect the dots in this way, the review should not be performed in a vacuum. Directors look for, and require, a process that has wide functional involvement, not just from finance personnel.

The role of each of the stakeholders will depend on two key factors:

- ▶ The specific elements or features of the certification process
- ▶ The circumstances of the company

About this guide

The primary purpose of this joint Ernst & Young and G100 publication is to provide a framework and process that supports the certifications provided by the CEO and CFO in accordance with S295A of the *Corporations Act 2001* and Recommendation 7.3 of the Australian Securities Exchange (ASX) Corporate Governance Council's *Principles of Good Corporate Governance and Good Practice Recommendations*.

This publication provides companies with practical guidance on implementing, improving or enhancing a process to support certification that is both robust and pragmatic.

We provide a suggested framework to support certification that considers:

- ▶ Scope of certification - We continue to focus primarily on financial reporting risks. It is worth noting however, that the revisions to the Principles of Good Corporate Governance means processes to manage and disclose other material non-financial business risks and the disclosure have increased in importance.
- ▶ Range of financial reporting risks - We consider the full range of risks, not just those relating to incorrect accounting treatment and inadequate disclosure. This encompasses:
 - ▶ Accounting and financial reporting.
 - ▶ Internal control.
 - ▶ Fraud and corruption.
 - ▶ Regulatory and policy compliance.
 - ▶ Record keeping and maintenance of books and records.
- ▶ Roles and responsibilities of stakeholders in the certification process.
- ▶ Features of a support process.

Developing a process to support certification, or amending and enhancing an existing procedure, is an exercise in change management. It is about creating and influencing the culture of an organisation, communicating effectively, as well as being a technical and compliance exercise.

It is also important to understand and appreciate the impacts other factors may have upon this process. For example:

- ▶ A lack of awareness and understanding of the process and its importance
- ▶ The impact of the regularity of the process (twice a year, versus almost fortnightly)
- ▶ The impact of other external factors - such as economic conditions

Roles and responsibilities

In developing a framework to support certification it is crucial to consider the role and responsibilities of all stakeholders in the certification process.

While this may change subtly for each organisation the primary stakeholders in the certification process are usually:

- ▶ Board
- ▶ Audit committee
- ▶ CEO and CFO
- ▶ General counsel/company secretary
- ▶ Internal audit
- ▶ Corporate accounting
- ▶ Business unit managers/general managers
- ▶ Business unit staff (either completing or reviewing questionnaires)

The roles and responsibilities of the various stakeholders are discussed in detail in chapter 2.

The questionnaire

While a formal survey of Australian listed companies has not been undertaken, anecdotal evidence indicates that a major element or feature of certification processes is the use of some form of questionnaire. We refer to this as an Internal Control Questionnaire (ICQ). We recommend an ICQ as a foundation feature of the certification support process.

Designing a process to support certification, including the role of the ICQ, is discussed in detail in chapter 2.

In chapter 3 we consider, and provide examples, of the type of questions that would generally be included in an ICQ. The example questionnaire should only form a starting point for any organisation. Specific review and tailoring (as appropriate) of this questionnaire is critical to ensure the questions are relevant and appropriately directed at those areas considered most important for each company.

Top tips for certification

- ▶ Focus on what is not there - "what have you not told us?"
- ▶ Consistent and effective communication is critical to ensure that the process is taken seriously.
- ▶ Review, assess and upgrade the process regularly to keep it fresh and avoid it becoming simply routine.

Chapter 1

Introduction



Designing a process to support certification

Boards and audit committees are increasing the level of direct and active involvement, and interest, in the certification process.

In updating this guide, we met with a number of finance executives to obtain insights about their certification processes, key features and any aspects that had changed since our last publication. Several people stressed that the certification process should only be considered a confirmation process. It should complement other reporting processes designed to ensure CEOs and CFOs are across the business operations and financials reporting processes. It should not be relied upon to detect business issues that relate to financial reporting. Companies who wait for or rely upon the certification process as their only control do so at their peril.

The certification process is a key feature of Australia's governance framework. In developing a framework, it is worth considering what the law may see as an appropriate process to support it. Unlike the prescriptive process required to sign-off in accordance with the *Sarbanes Oxley Act* in the US, there is no binding guide on an appropriate certification support process. Guidance is available from various sources but there is no generally accepted view. This publication seeks to provide a robust yet pragmatic model framework for supporting the development of a process of certification.

We are not aware of any direct legal challenges to CEO/CFO certification and, by extension, the process supporting certification in Australia. As such, we cannot draw guidance from legal precedents. However, there have been a number of high profile corporate cases that have shone a spotlight on financial reporting. Certification and the effectiveness (or lack thereof) of such a process may also come under question or challenge.

'Add on' approach vs integrated approach - weighing up the short term costs and the long term benefits.

Certification requirements for Australian companies

Australian listed companies are subject to specific certification requirements. These are contained in section 295A of the *Corporations Act 2001* and revised Recommendation 7.3 of the second edition of the Corporate Governance Council's, *Principles of Good Corporate Governance and Good Practice Recommendations* (the principles and recommendations).

Section 295A requires each person who performs a CEO or CFO function to provide the directors with a declaration stating whether, in their personal opinion:

- ▶ The financial records of the company have been properly maintained in accordance with section 286
- ▶ The financial statements and notes for the financial year comply with the accounting standards
- ▶ The financial statements and notes for the financial year give a true and fair view
- ▶ Any other matters prescribed by the regulations for the purposes of this paragraph in relation to the financial statements and notes for the financial year are satisfied

The revised Recommendation 7.3 states:

The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The certification process is a confirmation process only.

Frameworks and processes

Companies have employed various processes and frameworks to support certification. These processes range from leveraging existing management questionnaires to comprehensive documentation and testing of all significant business processes and internal controls. These are akin to the work undertaken by SEC registrants in accordance with the *Sarbanes Oxley Act*, section 404 certification.

Consultation with risk and finance practitioners endeavouring to implement a pragmatic certification process that meets desired cost/benefit parameters highlights the following:

- ▶ An 'add on' approach is sometimes an attractive (often low cost) option that requires resources to introduce the process. The benefits obtained from this are often minimal.
- ▶ An integrated approach considers how the certification process interacts with other assurance processes and functions and may require additional up-front time and resources. This generally produces greater long term efficiencies and benefits.

This publication acknowledges that companies:

- ▶ Have different levels of resources devoted to establishing and implementing a certification support process
- ▶ Require different levels of assurance and comfort from the process

We have tried to design an approach to certification that:

- ▶ Takes into account different company circumstances
- ▶ Provides basic certification support so companies can integrate all aspects of their assurance processes

Chapter 2 provides detailed guidance on designing a framework and process for supporting certification.

Scope

Consider if non-traditional financial reporting processes will have an impact on the financial statements - either now or in the future.

Following the release of the first edition of the *Principles and Recommendations* in March 2003, the Corporate Governance Council received requests to clarify Recommendation 7.2¹. Did the annual control certification focus primarily on risks and controls relating to the integrity of the company's financial reporting?

The second edition of the *Principles and Recommendations* in August 2007, clarified several points. It confirmed the focus on financial reporting risks by changing to the old Recommendation 7.2 (now 7.3) and moving the requirements of Recommendation 4.1² into 7.3. By including the new Recommendation 7.2, the Corporate Governance Council recommended the board get management to design and implement risk management and internal control systems to manage the company's material business risks. The other changes made are to financial reporting certification.

This publication does not specifically address the certification of risk management and internal control over material non-financial business risks. However, it is important to acknowledge that:

- ▶ Financial reporting risk may explicitly arise within a process that is not a traditional financial reporting process. For example, greenhouse gas disclosures and sustainability related issues may have implications for financial reporting. These need to be considered when developing the process supporting financial reporting certification.
- ▶ Many risks may not have an immediate impact on financial statements but if left unchecked may have an impact in the future.

¹ With the release of the second edition of the *Principles* - Recommendation 7.2 is now Recommendation 7.3 and the requirements previously included in Recommendation 4.1 have been included in 7.3, which explicitly focuses on financial reporting risks.

² The removal of Recommendation 4.1 was on the basis that for all intents and purposes 4.1 (which was previously referred to in the old Recommendation 7.2) had been superseded by the *Corporations Act 2001* requirement in section 295A and hence it was appropriate for the revised Recommendation 7.3 to now refer to that section of the *Corporations Act 2001*, rather than to Recommendation 4.1.

A summary of all changes are included in the table below:

Previous recommendation/principles	Revised recommendation/principles
Principle 4 - Safeguard integrity in financial reporting.	No change.
4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	Requirements effectively now included in the revised Recommendation 7.3. Recommendation 4.1 now reads: 4.1 The board should establish an audit committee.
Principle 7 - Recognise and manage risk.	No change.
7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that: 7.2.1 The statement given in accordance with best practice Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. 7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
7.3 Provide the information indicated in <i>Guide to Reporting</i> on Principle 7.	7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act 2001</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

This guide uses processes and concepts including, an ICQ that focus on financial reporting risks. Any of these can be adapted and applied to the certification of other risks.

The Corporate Governance Council issued an exposure draft as part of a limited review of its principles and recommendations and comments were due by 31 May 2010. The proposed amendments relate to other principles and recommendations. It is not expected there will be any significant changes to Principle 7 or any other changes that will impact financial reporting certification.

The Risk Universe

The Risk Universe comprises all the risks that may potentially affect a company achieving its objectives.



As shown in this diagram, financial risk is only one category of risk and financial reporting risk is one of a sub-set of financial risks.

In developing a process to support compliance with Section 295A of the *Corporations Act 2001* and revised Recommendation 7.3 sign-off, management and the board must be clear on the risks being addressed. They should also be clear on the reliance that can be placed on the certification process.

The experience of G100 members and other companies is that a major feature of certification support processes is the use of an appropriately tailored ICQ. The ICQ seeks evidence and assurance regarding the integrity of the financial statements and the application of various controls. The ICQ used by some companies preceded the current requirements and, therefore, were not 'purpose built' to support both the *Corporations Act 2001* and Recommendation 7.3 sign off. As such, many questions may relate to risks and controls that do not represent a financial reporting risk.

Conversely, a questionnaire may focus on only one aspect of financial reporting risk, such as the applicability of accounting treatments or the disclosure of information in the financial statements. It may exclude questions relating to other risk areas such as internal control, fraud and corruption, record keeping and the like.

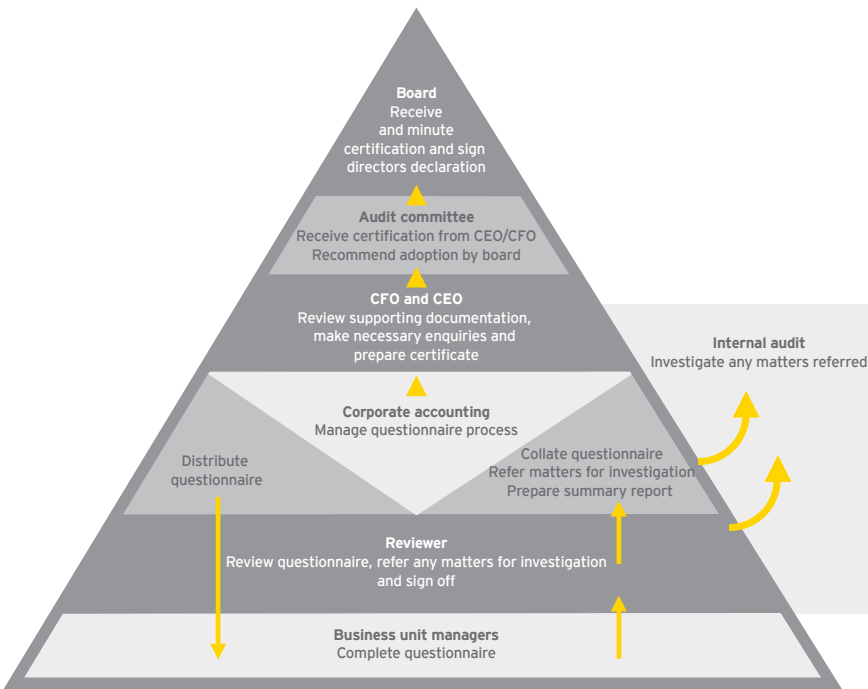
In chapter 3 we identify the breadth of risk areas as part of determining a company's financial reporting risks. These are in turn addressed in the process supporting certification.

Chapter 2

Designing a process to support certification



Process



There is a growing trend for audit committees and boards to seek more detail around the process that sits behind certification. A number of factors have influenced this development including:

- ▶ The flow on impacts from the global financial crisis
- ▶ A heightened awareness, understanding and appreciation of the risk management roles and responsibilities of boards and audit committees
- ▶ A number of high profile corporate cases where financial reporting is under scrutiny
- ▶ Striving to achieve the delicate balance between company and individual risk management for those people holding board and audit committee roles

In developing a framework and process to support certification it is crucial to consider the roles and responsibilities of all stakeholders in the certification process. Involvement from the audit committee or board upfront can help management ensure they receive the level of detail they require.

Our recommended certification process involves an ICQ (see diagram left).

The CFO/CEO needs to take an overall view to determine if everything is aligned.

Distributing the ICQ

The framework is based on the corporate finance and accounting function (corporate finance) managing the ICQ. It would typically complete an ICQ in relation to the financial statement close process and distribute it to each business unit manager to complete in accordance with a pre-approved distribution plan.

Distribution media varies from company to company. Some companies circulate hard copy questionnaires whereas others use electronic platforms, such as the company intranet. This depends upon the size, sophistication and geographic spread of an organisation.

Business unit personnel complete the questionnaire (or relevant section) which is reviewed and approved by the relevant business unit manager.

Where there is a CFO at the business unit level it is appropriate for them to be involved in the review and approval process.

Each business unit ICQ is returned to corporate finance, where it is reviewed for completeness and compiled with other business unit ICQs. Where an issue is identified via "no" responses, further investigation should confirm if there is a major issue requiring elevation. Alternatively, it may not be of enough significance to require reporting.

Preparing a summary report

Corporate finance then prepare a summary report for review and approval by corporate finance management, and ultimately the financial controller (or CFO direct report).

The extent of information included in the summary report will vary depending upon the circumstances and needs of the company. It should disclose any major issues arising from the ICQ process and state how they have been resolved or are being addressed.

The financial controller should evidence their review, approve the summary report and indicate whether there are grounds for the CFO to make their certification. At this point an overall view may need to be taken. Information obtained from other processes, sources and responsibilities may be used to sense check the responses from certification, to ensure that everything is aligned.

We suggest the company secretary or general counsel also review the summary report before elevating it to the CFO and CEO. This is in addition to completing their own ICQ.

A company secretarial or legal review will be required depending on the company's financial statement accounts and disclosures, and its inherent business risks. It will require sign-off by the legal counsel/ company secretary.

Each company can decide the level of documentation elevated to the CFO and CEO, and in turn, the audit committee and the board. If the board is involved in developing and approving the certification process only minimal documentation generally needs to be elevated.

Role of internal audit

This framework anticipates an investigative role for internal audit. Throughout the process issues can be directed to them for investigation with the outcome noted in the summary report. Companies may also use internal audit to review sample questionnaires sent in by business units to check responses can be supported. Corporate finance may also play an investigative role.

Boards and audit committees are asking more probing questions and are requiring more detailed explanations.

Roles and responsibilities

The suggested roles and responsibilities of the stakeholders in the certification process, based on the framework outlined above are as follows:

Stakeholders	Role and responsibilities
Board	<ul style="list-style-type: none"> ▶ The board should agree the overall framework and process adopted to support certification. Note: this is not an ongoing requirement, but is performed prior to the first period in which the new process is implemented. Board approval of the process will then be sought if a major change to the framework or process is proposed. This may change depending upon the company's specific circumstances. ▶ On an ongoing basis (annually or six-monthly or more regularly should individual company circumstances warrant this) the board will, on the advice of the audit committee, receive the certification provided by the CEO and the CFO. ▶ The certification received in relation to the year-end will enable the directors to sign the directors' declaration in accordance with <i>Corporations Act 2001</i> section 295(4).
Audit committee	<ul style="list-style-type: none"> ▶ The audit committee should receive certification from the CEO and CFO and make any enquiries necessary in relation to the certification or the process supporting it. ▶ Once satisfied, the audit committee recommends adoption of certification to the board.
CEO and CFO	<ul style="list-style-type: none"> ▶ Review the evidence provided by management to support certification including the summary report, the results of any investigations carried out either by corporate accounting or internal audit and any reports provided by general counsel. Ensure this is consistent with the overall view of the company and its operations. ▶ Once satisfied that the requirements of section 295A of the <i>Corporations Act 2001</i> and Recommendation 7.3 have been met, the CEO and CFO sign the certificate to be provided to the audit committee.
General counsel/ company secretary	<ul style="list-style-type: none"> ▶ The general counsel and/or company secretary reviews the summary report and if deemed necessary make any further investigations principally through referral to corporate accounting or internal audit. They also play an important overall oversight/consistency role. ▶ They sign, as reviewed, the summary report. ▶ Where required, may also be required to complete an ICQ in relation to company secretarial and/or legal matters.
Corporate finance/ accounting	<ul style="list-style-type: none"> ▶ Corporate finance/accounting is responsible for developing/updating the ICQ and managing the process. ▶ The manager, corporate accounting is responsible for: <ol style="list-style-type: none"> a) Ensuring the ICQ is distributed. b) Collating the completed questionnaires. ▶ In relation to certain matters warranting investigation, corporate accounting will undertake such follow up itself or refer this to the manager, internal audit. Upon completion of any necessary investigations, corporate accounting then prepare the summary report which details the results of the ICQ process for the period including the outcome of any investigations. ▶ The summary report should be signed off by the manager, corporate accounting and reviewed and signed off by the financial controller. ▶ Where required, would also typically complete an ICQ in relation to the financial statement close process, the process undertaken to produce the financial statements and related disclosures.
Internal audit	<ul style="list-style-type: none"> ▶ Internal audit may be called upon to perform a number of various roles in this process - including: <ul style="list-style-type: none"> ▶ Providing assurance, through the use of sample testing and reviewing, that the process used by business units in completing the ICQs is robust and has appropriate evidence supporting responses. The outcome of such a review may be provided to corporate finance and the audit committee. ▶ Following up certain matters warranting further investigation as referred by corporate finance. Upon completion of the investigations, internal audit will prepare a summary report and provide this to corporate finance for inclusion in the overall summary (as applicable).
Reviewer	<ul style="list-style-type: none"> ▶ The reviewer reviews all designated ICQs and obtains any necessary clarifications or additional information from the department line manager who completed the ICQ. If unable to resolve any issues, the reviewer refers the matter to the manager, internal audit. Once satisfied with the results of any investigations, the reviewer signs off the ICQ.
Business unit operator/manager	<ul style="list-style-type: none"> ▶ Business unit operators/managers complete designated ICQ making any necessary enquiries or undertaking any tasks necessary to complete the required information. ▶ Where considered appropriate business unit operators or managers compile and maintain appropriate support on which they base their responses.

The above descriptions of roles and responsibilities vary depending upon the circumstances and desires of the company. For example a company may not require the collated questionnaires (summary report) be reviewed by the company secretary/general counsel. Similarly, a company may not desire the role envisaged in the framework for internal audit.

Developing the ICQ – Challenges and insights

Whether developing an ICQ for the first time, modifying questionnaires not previously used for certification purposes, or updating and enhancing ICQs currently used to support certification, three key questions need to be addressed:

- ▶ Does the questionnaire take into account all aspects of company financial reporting risk?
- ▶ Does the ICQ take into account any changes in the business and/or financial reporting environment?
- ▶ Are people taking this process seriously?

The ICQ should be developed as an integral part of the company's ongoing risk management practices, and not just viewed as a once a year exercise.

Categories of financial reporting risk

Experience has revealed that very few questionnaires previously took into account all aspects of financial reporting risk. Some questionnaires only addressed accounting treatments and financial report disclosures. The questionnaires did not consider other sources of financial reporting risks, such as:

- ▶ Errors caused by internal control failure
- ▶ Non-compliance with financial regulation or company policy
- ▶ Inadequate record keeping

The five broad categories of financial reporting risk are:

- ▶ Accounting and financial reporting
- ▶ Internal control
- ▶ Fraud and corruption
- ▶ Regulatory and policy compliance
- ▶ Record keeping

The questionnaire should address each of these categories to support financial reporting certification.

Tailoring – company and audience

A company's questions must be tailored to address the specific circumstances. Best practice organisations are even tailoring the questions for specific business units.

The more tailored the questionnaire the greater the focus that will be placed on it. If the ICQ is cumbersome and contains questions not applicable to the business unit it runs the risk of being given 'lip service'. It may be viewed as a 'catch all' with a tendency for people to answer "not applicable" to questions that are challenging or not fully understood.

Developing robust certification processes is as much a cultural journey and an exercise in timely, regular and effective communication.

Communicating the importance

Given the ICQ forms the basis of the CEO/CFO certification to the board, the organisation needs to take the process seriously. Developing robust certification processes is as much a cultural journey and an exercise in timely, regular and effective communication as it is a technical and compliance one. The board and executive need to understand and demonstrate this.

To ensure the importance of the ICQ and the role it plays within the broader certification support framework, it is critical that this message is reinforced throughout the company. A company should consider what processes they will employ to:

- ▶ Communicate and explain the requirements and importance of the certification process and the role the ICQ plays
- ▶ Train those completing the ICQ in what is required
- ▶ Reinforce the importance of this process
- ▶ Communicate any changes that occur in the process and any changes in the ICQ

Building and enhancing your ICQ

Chapter 3 includes suggested questions for the internal questionnaire for each of the five categories of financial reporting risk. These are used by a company as a starting point to develop, modify or enhance its own questionnaire. Appropriate modifications need to be made to this base ICQ to ensure what the company adopts is appropriately tailored to its needs.

The framework described above, together with the discussion in chapter 3, is designed to provide a certification process that represents demonstrable and rigorous support for the certification framework.

This process is designed to be extended by companies wishing to further challenge and integrate their risk, compliance and assurance functions.

Chapter 3

Financial reporting risks questionnaire



What to include in the ICQ

In this chapter we address the issues to be considered when developing the ICQ that forms the basis of the process supporting the Section 295A and Recommendation 7.3 certification.

The questionnaire is drafted on the basis that each of the five categories of financial reporting risk will be completed by an appropriate person from each business unit. At least one level of review will be undertaken within the business unit, prior to collation of the ICQ at a corporate level.

However, there may be questions that have relevance only at a corporate level, such as the maintenance of certain registers as well as director and general meeting minutes. Therefore, it is best to tailor the questions from the ICQ to suit the particular circumstances of each business unit.

ICQ instructions

The ICQ should include an explanatory cover sheet outlining the reasons why the questionnaire must be completed and the responsibilities of the person(s) completing and reviewing the questionnaire.

An example ICQ cover sheet is provided at appendix 1.

Most companies require each person completing or reviewing an ICQ to sign a modified version of the certification provided by the CEO/CFO for their area of responsibility. An example certification is provided in appendix 2.

We have included in appendix 3 an example of the certification that may be provided by the CEO/CFO on completion of the entire process.

Accounting and financial reporting risk

The *Corporations Act 2001* section 295A requires the CEO and CFO to certify that in their opinion:

- a The financial records of the company have been properly maintained in accordance with section 286
- b The financial statements and the notes for the financial year comply with the accounting standards
- c The financial statements and notes for the financial year give a true and fair view
- d Any other matters that are prescribed by the regulations for the purposes of this paragraph in relation to the financial statements and notes for the financial year are satisfied

The accounting and financial reporting risk section of the ICQ is essentially related to two of the four considerations outlined above. These are:

Paragraph (b) - the financial statements and the notes for the financial year comply with the accounting standards	For all financial reporting periods beginning on or after 1 January 2005, financial statements must be prepared and presented in accordance with Australian Accounting Standards (AAS) ³ .
Paragraph (c) - the financial statements and the notes for the financial year give a true and fair view	<p>The requirement for the financial statements and notes to give a true and fair view is inextricably linked with the requirement for the financial statements and notes to comply with accounting standards.</p> <p>It is possible that in certain cases the notes to the financial statements may need to provide additional information beyond that required by the accounting standards in order for a company's report to provide a true and fair view. This is made clear in AASB 101 <i>Presentation of Financial Statements</i> paragraph 13 which states "...the application of Australian Accounting Standards, with additional disclosure when necessary, is presumed to result in a financial report that achieves a fair presentation."</p>

Whether or not additional information is necessary to achieve a true and fair view will be a matter of judgement by the board in consultation with the company's auditors.

³ The current Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each standard in the Australian environment.

AAS compliance

The objective of the accounting and financial reporting risk section of the ICQ is to address the company's compliance with AAS. It will identify issues that could cause material misstatement in the financial statements. AASB 1031 Materiality paragraph 9 indicates that:

"The standards specified in other AAS apply to the financial report when information resulting from their application is material. Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to:

a Influence the economic decisions of users taken on the basis of the financial report

or

b Affect the discharge of accountability by the management or governing body of the entity"

An item should be considered material to financial statements if its omission or misstatement could influence the decisions of its users. It is necessary for a company to determine the materiality limits to be applied in completing the ICQ. Materiality limits may be set for balance sheet and profit and loss items and should be clearly indicated in the ICQ.

While quantitative materiality limits are important, items that are immaterial in size may be material due to their nature. Respondents should take both quantitative and qualitative factors into account when completing the ICQ.

The risk section of the questionnaire should be completed by a senior executive responsible for accounting and finance within each business unit. (Note: the questionnaire is intended to provide a high level overview of the types of questions addressing the major accounting and financial reporting issues⁴).

These senior executives should review the questionnaire for completeness and accuracy before passing it to the individual responsible for group accounting. This individual then reports to the CFO.

Suggested questions for each category of financial reporting risk are included in Appendix 4.

⁴ A more detailed questionnaire covering financial statement issues is included in the Ernst & Young publication *Financial statements checklist - A guide for directors*.

Are the significant accounts and disclosures in the financial statements free from material misstatement?
Is the underlying system of internal control over financial reporting operating effectively?

Internal control risk

The term 'internal control' suggests an inward looking process. External points of contact are also important to an effective internal control environment. This is best described as looking at the overall mechanics of how a company transacts with the outside world and how these transactions are recorded in its books and records. Each step of the process is a potential weakness for financial or operating risk.

The ICQ internal control risk section provides comfort that significant accounts and disclosures in the financial statements are free from material misstatement. If it could contain a material error, a general ledger account is considered.

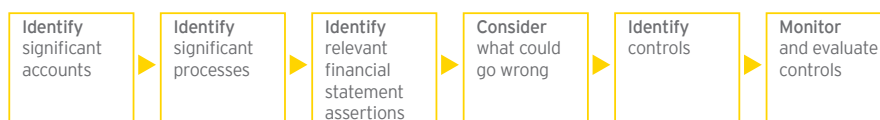
Controls for significant accounts

Tailoring questionnaires can give assurance that significant accounts are free from material misstatement. Management need to confirm controls are in place to prevent or detect and rectify errors. Errors could be in the initiating, recording, processing or reporting of transactions relating to significant accounts or disclosures. They should operate as planned and be reviewed regularly. The overall control environment, including IT systems, is addressed in this section of the ICQ.

The diagram below depicts an approach to identifying the controls that need to be addressed in the internal control risk section of the ICQ.

Identifying significant accounts

Significant accounts vary from company to company. The process for identifying them starts with sound understanding of the business and the environment in which it operates. Business objectives are central to this assessment and include the strategy for products and services, key market forces together with stakeholder influences. This understanding should highlight any inherent business risks. These are applied to the company's financial statements, together with a defined financial report materiality and help to identify significant accounts.



Identifying significant processes

A significant process is the transaction stream or streams that occur prior to an event being recorded in the financial statements. Examples of significant processes include:

- ▶ Cash receipts
- ▶ Cash disbursements
- ▶ Sales and accounts receivable
- ▶ Inventory costing
- ▶ Inventory counting
- ▶ Fixed asset management
- ▶ Purchasing and accounts payable
- ▶ Payroll
- ▶ Accruing for rebates
- ▶ Accruing for commissions

It may be necessary to drill down into sub-processes to identify the controls that should be challenged in the ICQ. For example, a significant component of accounts receivable may relate to aged debt in overseas locations. The significant process (sales and accounts receivable) may need to be analysed via its sub processes, which might include :

- ▶ Customer acceptance
- ▶ Customer credit limit approval
- ▶ Order verification
- ▶ Order processing
- ▶ Quality control and order closure
- ▶ Packing for shipment
- ▶ Advice and delivery note
- ▶ Customs and duties clearance for shipping for export
- ▶ Invoicing
- ▶ Aged debtor reporting

Identify management's relevant financial statement assertions

It is important to understand the financial statement assertions relevant to each significant account and process in order to prepare an assessment of potential risks in the form of what can go wrong (WCGW).

These assertions are:

Assertion	Financial statement	Definition
Existence	Balance sheet	An asset or liability exists at a given date
Occurrence	Income statement	A recorded transaction or event that pertains to the company actually took place during that period
Valuation	Balance sheet	An asset or liability is recorded at an appropriate carrying value
Measurement	Income statement	A transaction or event is recorded at the proper amount
Completeness	Balance sheet Income statement	There are no unrecorded assets, liabilities, transactions or events or undisclosed items
Rights and obligations	Balance sheet	An asset or a liability pertains to the company at a given date
Presentation and disclosure	Balance sheet Income statement	An item is classified, described and disclosed in accordance with the applicable financial reporting framework

From a financial reporting certification perspective, these assertions must be evidenced by management in order to sign-off with confidence.

The WCGW describes the types of errors that could occur within a significant process. Management should ensure these events or errors are being prevented or captured and remediated by the internal control framework. This needs to happen in order to sign off on the effectiveness of that framework.

Fraud and corruption is an annual \$8.5 billion issue for Australia according to the Australian Institute of Criminology (AIC)⁵.

Controls

The controls in place for WCGW are the subject of the internal control risk section of the ICQ. System-based preventative controls are preferable to manual, detective controls. An assessment of the significance and likelihood of each WCGW is made to determine which controls are critical and which need to be addressed in the ICQ.

The financial statement close process is the process that transforms the transactions reflected in the company's accounting records into the financial statements and related disclosures. This process should be considered significant and should also be subject to the completion of an ICQ.

What to include in the ICQ

The internal control risk section of the ICQ is unique for each company. The questions that provide comfort about internal control depend on a number of things. This includes each company's significant accounts, significant processes, things that could go wrong and the controls to prevent or detect and rectify the WCGW.

There is no generic questionnaire that can be used in every situation. However, generic issues relating to internal control to cover include:

- ▶ The overall control environment
- ▶ Information systems (at a macro level)
- ▶ The financial statement close process

Suggested questions for each category of financial reporting risk are included in Appendix 4.

Fraud and corruption risk

The cost of fraud and corruption to organisations is well documented and high profile cases widely publicised. Fraud and corruption can adversely affect business operations, the reputations of individuals and organisations, employee morale and stakeholder confidence and divert management attention.

As the world economy wrestles with the impact of the global financial crisis, fraud and corruption has been among the top 10 risks facing businesses. Corruption has gained prominence alongside fraud as globalisation highlights the risks such as bribery, cartels and other corrupt practices. Transparency International reports that overcharges in business dealings around the world are estimated at US \$300 billion.

Organisation and executive risk

FCPA risk (named after the US *Foreign Corrupt Practices Act* and used as a global de facto international standard) has emerged recently as a key corruption risk to organisations and executives. This is also a risk from a personal liability perspective. Thirty-seven nations have ratified the Organisation for Economic Cooperation and Development's (OECD's) convention on Combating Bribery of Foreign Officials in International Business Transactions. Australia has its own legislation prohibiting foreign corrupt practices. There have also been a number of high profile international prosecutions and civil actions involving regional or global operations organisations.

Conceptually, the approach to fraud and corruption prevention is based on the premise that risk management is part of sound financial management. The risk of fraud is controlled by establishing a risk management framework. That should be integrated with the organisation's overall risk management philosophy.

⁵ *Counting the cost of crime in Australia: a 2005 update in research and public policy series*, Rollings, K, 2008, no 247, AIC, Canberra.

What is fraud and corruption?⁶

Fraud	Dishonest activity causing actual or potential financial loss to any person or organisation including theft of moneys or other property by employees or persons external to the organisation. It may involve deception at the time, immediately before or immediately following the activity. Fraud also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal business purpose of the improper use of information or position.
Corruption	Dishonest activity in which a director, executive, manager, employee or contractor of an organisation acts contrary to the interests of the organisation and abuses a position of trust in order to achieve some personal gain or advantage, or an advantage for another person or organisation.

Examples of fraud and corruption include:

- ▶ Theft of assets
- ▶ False invoicing
- ▶ Accounts receivable fraud
- ▶ Credit fraud
- ▶ Financial statement fraud
- ▶ Payment or receipt of bribes (secret commissions)
- ▶ Unauthorised release of confidential information
- ▶ Collusive tendering
- ▶ Serious conflicts of interest
- ▶ Manipulation of the procurement process

Fraud and corruption guide

There are a number of guides on fraud and corruption control. For example, the governance series of Australian Standards issued by Standards Australia, especially AS 8001-2003, *Fraud and Corruption Control*, and AS 8004-2003, *Whistleblower Protection Programs for Entities* are specifically relevant to fraud control.

The risk of fraud and corruption is as much a business risk as finance, governance, occupational health & safety, and environmental risks. Identifying and managing financial reporting risks because of lack of fraud and corruption control is an integral part of the process supporting compliance with Recommendation 7.3.

Suggested questions for each category of financial reporting risk are included in Appendix 4.

⁶ As defined in the governance series of Australian Standards issued by Standards Australia, especially AS 8001-2003 *Fraud and Corruption Control* and AS 8004-2003 *Whistleblower Protection Programs for Entities*.

Regulatory and policy compliance risk

Non-compliance with regulatory requirements or company policy can expose the company to financial reporting risk. Compliance with the reporting requirements of the *Corporations Act 2001* and Australian Accounting Standards are addressed in the accounting and financial reporting risk section of the ICQ. Record keeping, compliance requirements of the *Corporations Act 2001* are addressed in the record keeping risk section of the ICQ.

The regulatory and policy compliance risk section of the ICQ deals with laws and regulations and with company policy. Companies are subject to legislation and regulation (such as employment, occupational health and safety matters and increasingly emissions). They are also subject to specific laws as a result of their industry or their geographical location.

It is beyond the scope of this publication to address compliance with all laws a company is subject to. Non-compliance with some laws and regulations may not directly (or in the short-term) impact the integrity of the financial statements. It may not indicate that risk management and internal controls are not operating effectively. It may, however, have severe and adverse long-term effects.

Record keeping risk

The *Corporations Act 2001* certification requirement (section 295A) requires that the CEO/CFO confirm that the financial records of the company have been properly maintained in accordance with section 286. The definition of financial records is broad and questions probing beyond "are accounting records adequately maintained?" are necessary to obtain assurance that these requirements are met.

The types of questions that are relevant to addressing financial reporting risk relating to the maintenance of appropriate books and records are included in the pro forma ICQ at appendix 4.

Suggested questions for each category of financial reporting risk are included in Appendix 4.

Appendices



Appendix 1

Illustrative ICQ coversheet and instructions

The ICQ should be accompanied by adequate instructions. Following is an example of the matters that should, at a minimum, be addressed in the instruction memorandum.

Please complete the attached ICQ (pursuant with company policy). The CEO and CFO rely on this information in order to make necessary declarations to the board in relation to the preparation of the financial statements and the maintenance of proper books and records. As a manager [or insert other position description as appropriate] you are responsible for the effective operation of the internal control framework as it affects your area. In responding to this questionnaire you are required to undertake adequate due diligence to verify your responses and to retain any necessary documents supporting and validating your responses.

[It may also be appropriate to include reviewer instructions - depending upon the distribution and review framework adopted by a company.]

In completing the questionnaire:

- ▶ All questions are to be read and answered in relation to your area of control with appropriate consideration of significance and materiality.
- ▶ For any “no” answer an appropriate explanation must be provided, including other procedures undertaken, remedial action initiated or the like.
- ▶ “Not applicable” (N/A) responses are appropriate only when you have no way of knowing the answer to the question or the question does not relate to your area. Justification of N/A responses is not required to be recorded in the ICQ.

[For any “yes” answer - a company may decide that the “yes” is sufficient without further support and/or explanation. Experience has revealed some companies specified that even where the answer was “yes”, additional justification and rationale was required to explain the basis of this answer. For example, what they did to verify the answer, what documents were reviewed and/or what validation steps did they undertake? This provides the reviewer and corporate finance team with information to satisfy themselves that the process undertaken was appropriate and the “yes” answers are appropriate.]

[It may also be necessary to include instructions on accessing the ICQ if it is facilitated in soft copy. It may be appropriate to include the sources of information available to assist in completing the ICQ, persons to contact regarding completion issues and the date by which the ICQ must be completed.]

Upon completion of the ICQ you are required to complete the attached certification.

[A company must decide whether it will require sign-off of a certificate by each person who completes an ICQ, or each person who reviews an ICQ. This will determine the nature and content of that sign-off. An example sign-off certificate - for persons below CEO/CFO - is included in appendix 2.]

Appendix 2

Illustrative sign-off (below CEO/CFO level)

I am not aware of any reason why, with respect to my area of control and after considering and where appropriate, validating, the information prepared and submitted by my area for the purpose of financial and risk management (as addressed in the completed ICQ), the following declaration should not be made by the CEO and the CFO. This is pursuant to section 295A of the *Corporations Act 2001* and Recommendation 7.3 of the Corporate Governance Council's, *Principles of Good Corporate Governance and Best Practice Recommendations*.

“That:

- ▶ The financial records of the company have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*.
- ▶ The financial statements and notes comply in all material respects with the accounting standards and give a true and fair view, in all material respects, of the financial position as at balance date and performance of the company for the year then ended.
- ▶ The statements made regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the board of directors.
- ▶ The risk management and internal compliance and control systems of the company and consolidated entity relating to financial reporting objectives are operating effectively, in all material respects.”

[Name]

[Position]

[Date]

Appendix 3

Illustrative CEO/CFO statement

Statement to the Board of Directors of [company name]

In our opinion:

- a With regard to the integrity of the financial report of [company name] for the year ended [balance date]:
- i The financial statements and associated notes comply in all material respects with the Accounting Standards as required by Section 296 of the *Corporations Act 2001*
 - ii The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at [balance date] and performance of the company (and consolidated entity) [if applicable] for the year then ended as required by Section 297 of the *Corporations Act 2001*
- b With regard to the financial records and systems of risk management and internal compliance and control of [company name] for the year ended [balance date]:
- i The financial records of the company have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*
 - ii The statements made in (a) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the board of directors
 - iii The risk management and internal compliance and control systems of the company (and consolidated entity) [if applicable] relating to financial reporting objectives are operating effectively, in all material respects, based on the criteria for effective internal control established in [describe criteria]
 - iv Subsequent to [balance date], no changes or other matters have arisen that would have a material effect on the operation of risk management and internal compliance and control systems of the company (and consolidated entity) [if applicable] [other than as follows: describe changes or matters]

[Name]
Chief Executive Officer
[Date]

[Name]
Chief Financial Officer
[Date]

Appendix 4

Questionnaire

Instead of simple “yes”, “no” or “N/A” answers, some companies are providing sections within their questionnaire templates where respondents can provide additional comments when answering the certification question. This is in response to the increasing levels of interest in, and reviews of, on the part of directors, the certification process.

Many directors are no longer happy to simply accept a completed set of “yes” answers at face value as reflective of a robust process. To prove the process is robust enough, probes the rights areas and does not allow issues to fester or be swept under the carpet, a comment section provides directors with increased information necessary if further discussions are needed with the CEO/CFO.

It should be noted that these comments cannot be used by respondents as a type of ‘get-out’ mechanism. Such comments are there to provide context to material or judgemental areas and in no way removes the obligation to provide answers that can be supported.

Example 1

For example rather than just answering “yes” to question A6 on new accounting standards - the ability to also provide comments would allow a respondent to note the following:

“Yes

Six new standards are applicable with effect 1 July 2010 and their impact has been assessed in the position paper presented to the audit committee in May 2010 and as summarised in note 1 to the draft financial statements.”

Example 2

As referred to in A12 regarding matters reported to the respondent’s immediate senior that the board should know.

“Yes

[They would then be encouraged to provide a list of what these were so the directors can independently verify whether this had in fact occurred].”

Section A: Accounting and financial reporting		Yes	No	N/A
Financial statements				
A1	Have the financial statements been prepared and presented in all material respects in accordance with Australian Accounting Standards and the requirements of the <i>Corporations Act 2001</i> ?			
A2	In your opinion, do the financial statements and the notes thereto give a true and fair view of the financial position and performance of the entity?			
A3	Do you believe that the entity's treatment of all accounting issues can reasonably be defended?			
A4	Have the financial statements been prepared in accordance with the entity's accounting policies?			
A5	Are you satisfied that the effects of new or amended accounting standards, which have current year application, have been taken into account in the development of the entity's accounting policies and are correctly reflected in the financial report?			
A6	Have all new or amended accounting policies adopted by the company been approved through the necessary channels?			
A7	Are you satisfied that the effects of new or amended accounting standards (which do not apply in the current period) have been taken into account in the development of the entity's accounting policies and have been adequately disclosed in the financial report?			
A8	Can you confirm that nothing has come to your attention to suggest that any material transactions or balances have not been correctly recorded in the entity's financial statements?			
A9	Are you satisfied that there have not been any major breakdowns in internal controls that could have a material effect on the financial statements?			
A10	Have any reports produced by the internal or external auditors dealing with issues that could impact on the financial report been reviewed and appropriate action taken?			
A11	Are you satisfied that any material matters, including but not limited to, material irregularities involving any member of management or other employee that could impact on the financial report have been adequately dealt with?			
A12	Are you satisfied that any material matters that could impact on the board of directors' consideration of the financial report have been reported to your immediate senior?			
A13	Are you satisfied that all material or non-routine correspondence with regulators has been referred to the appropriate group/committee in accordance with company policy?			
A14	Are you satisfied that there are no matters in the financial report that could be considered to be misleading?			
A15	Have any material unresolved matters or any remaining matters of significant uncertainty been adequately disclosed in the financial report?			
A16	Are you satisfied that all events occurring since the reporting date have been appropriately dealt with in the financial statements, either by way of adjustment and/or disclosure?			
A17	Are you of the view that there are reasonable grounds to believe that over the next 12 months the entity will be able to pay its debts as and when they become due and payable?			
A18	Are you satisfied that there are no other matters that could materially affect the financial statements of the entity that have not been brought to the attention of the board of directors and/or disclosed in the financial report?			
Balance sheet		Yes	No	N/A
Assets				
A19	Are you satisfied that the split between current assets and non-current assets is correct?			
A20	Are you satisfied that all current assets are expected to realise their carrying amount as reflected in the financial statements within the next twelve months?			
A21	Have all known bad debts been written off?			
A22	Has an adequate allowance been made for those receivables for which there is objective evidence of non-collectability?			
A23	Is inventory valued at the lower of cost and net realisable value?			
A24	Has inventory been physically verified either at reporting date or at a date other than period-end?			
A25	Has goodwill and have all indefinite life intangible assets been tested for impairment?			

Balance sheet		Yes	No	N/A
A26	Have all other assets or cash generating units been reviewed at reporting date to determine if there are any indications of impairment?			
A27	Have all assets or cash generating units for which indications of impairment (or reversals of impairment) exist been tested for impairment?			
A28	Are you satisfied that all impairment losses and reversals of impairment losses have been appropriately recognised in the income statement?			
A29	Are you satisfied that the entity has satisfactory title to all property, plant and equipment included in the financial statements?			
A30	Are you satisfied that there are appropriate procedures in place to regularly verify the physical existence of property, plant and equipment?			
A31	Have all depreciable assets been depreciated or amortised over their estimated useful lives?			
A32	Are you satisfied that the estimates of residual value and useful lives of assets and the depreciation methods used have been reviewed at the end of the reporting period and are appropriate?			
A33	Have all leases been assessed and appropriately accounted for as either finance or operating leases?			
A34	Are you satisfied that all assets that are the subject of finance leases have been recognised on balance sheet?			
A35	Are you satisfied that all assets reflected on the entity's balance sheet are permitted to be recognised as assets by the accounting standards?			
Liabilities				
A36	Are you satisfied that the split between current liabilities and non-current liabilities is correct?			
A37	Have all known liabilities at reporting date been included in the financial statements including accruals, interest and other costs owing but not yet paid?			
A38	Are you satisfied that adequate provision has been made in the financial statements to cover all known liabilities, including employee entitlements, customer claims and legal actions?			
A39	Are you satisfied that provisions have only been raised for liabilities required to be recognised under the accounting standards (for example, provisions for future operating losses are not permissible under the accounting standards)?			
A40	Has adequate provision been made for any onerous contracts to which the entity is a party?			
A41	Have all liabilities arising under finance leases been recognised in the financial statements?			
Contingent liabilities and commitments				
A42	Are you satisfied that all contingent liabilities have been disclosed in the financial statements?			
A43	Have all commitments, including capital commitments and commitments under operating leases, been appropriately disclosed in the financial statements?			
Income statement				
A44	Have all items of income and expense been included in profit and loss for the period?			
A45	Are you satisfied that all revenues have been measured and recognised correctly in accordance with the entity's accounting policy?			
A46	Have all significant items of income and expense (being those that are of such size, nature or incidence that their disclosure is relevant in explaining the financial performance of the company) been adequately disclosed in the financial statements?			
A47	Are you satisfied that income and expenses have not been offset against each other except in cases where offsetting is permitted by an Accounting Standard?			
A48	Are you satisfied that the provision for current and deferred taxes is adequate and includes all local and foreign taxes?			

Balance sheet		Yes	No	N/A
Taxes				
A49	Are you satisfied that deferred tax has been accounted for in accordance with the requirements of AASB 112 <i>Income Taxes</i> ?			
A50	For any deferred tax assets recognised, are you satisfied that their realisation against future taxable income is probable?			
A51	Are you satisfied that no offences have been committed through avoidance techniques for avoiding income tax, sales tax, fringe benefits tax, goods and services tax, capital gains tax and other taxes?			
A52	If there are any material matters currently under dispute with the taxation authorities, are you satisfied that adequate provision and disclosure has been made in the financial statements?			
A53	Are you satisfied that appropriate consideration has been given to the implications of outstanding income tax assessments and tax audits?			
A54	Are you satisfied that the entity has appropriate tax compliance systems in place to ensure that the entity is tax compliant at all times?			
Subsidiaries, special purpose vehicles, associates and joint ventures				
A55	Are you satisfied that the group financial statements include the results of the parent entity and all subsidiaries, associates and joint ventures as appropriate?			
A56	Are you satisfied that all special purpose entities that are controlled by the entity have been consolidated in the group financial statements?			
A57	Have all business combinations that took place during the year been accounted for using the acquisition method as outlined in AASB 3 <i>Business Combinations</i> ?			
Financial instruments and hedging				
A58	Have all derivative financial instruments, including embedded derivatives, been measured and recognised in accordance with the requirements of AASB 139 <i>Financial Instruments: Recognition and Measurement</i> ? NOTE: AASB 9 <i>Financial Instruments</i> (phase 1) has recently been issued. These amendments relate only to the classification and measurement of financial assets. While available for early adoption, the mandatory effective date is annual reporting periods commencing on or after 1 January 2013.			
A59	Are you satisfied that all financial assets and financial liabilities have been appropriately categorised and accounted for as set out in AASB 139?			
A60	Are you happy all financial assets have been correctly assessed for impairment in accordance with AASB 139 <i>Financial Instruments: Recognition and Measurement</i> ?			
A61	If the entity applies hedge accounting, are you satisfied that the entity has complied throughout the period with all the requirements in AASB 139 for hedge accounting, including the maintenance of appropriate documentation?			
A62	Are you satisfied that all hedges have been appropriately classified as fair value hedges, cash flow hedges or hedges of net investments in foreign operations and accounted for in accordance with the requirements in AASB 139 for that classification?			
Other				
A63	If the entity has entered into share-based payment transactions, are you satisfied that those transactions have been recognised in the financial statements in accordance with the requirements of AASB 2 <i>Share-based Payment</i> ?			
A64	Have all contracts entered into been reviewed for clauses that could result in the existence of embedded derivatives?			
A65	Have all contracts entered into been reviewed for clauses that could result in the existence of embedded leases?			

SECTION B: Internal control		Yes	No	N/A
Control environment				
B1	Have you complied with the company's code of conduct and ethical guidelines?			
B2	Have any breaches of the company's code of conduct and ethical guidelines that have come to your attention been dealt with in accordance with company policy?			
B3	When management has become aware of any departures from internal control policies and procedures has decisive and prompt action been taken to deal with the issue at hand?			
B4	When management has become aware of any departures from internal control policies and procedures has decisive and prompt action been taken to put in place controls to avoid a repeat?			
Information systems				
B5	Has management gained comfort over the internal controls related to key IT platforms underpinning the financial statements?			
B6	Have direct downloads from the financial reporting system been checked for accuracy?			
Financial statement close process				
B7	Have all balance sheet account reconciliations been prepared as at the reporting date?			
B8	Have all reconciling items been investigated, explained and as appropriate raised for CFO consideration?			
B9	Have all reconciliations been reviewed by someone independent of the preparation stage?			
B10	Has an appropriate stock-count policy been adhered to during the reporting period?			
B11	Have all stock-count differences been investigated, remediated and recorded on a timely basis?			
B12	Have appropriate cut off procedures been applied at the reporting date?			
B13	Have all areas of key accounting judgement or estimate been agreed by the CFO or other appropriately authorised person?			
B14	Have all non-standard journal entries in excess of [pre-determined \$ amount] been approved by an appropriately authorised person?			
B15	Has the accounting and financial reporting questionnaire been completed in full? Has this been reviewed by the CFO with evidence of key matters being resolved?			
B16	Has an appropriately authorised person reviewed the basis and content of non-standard reports produced outside the IT platform that are used in preparing the financial statements?			
Significant process and controls				
B17	Has group accounting formed a consensus on what are significant accounts and significant processes?			
B18	Has this assessment been updated for any significant changes that have occurred since the last reporting period?			
B19	Has each significant process been documented?			
B20	Have all 'what could go wrong' issues (WCGW) been identified within each process mindful of the relevant financial statement assertions?			
B21	Have controls been designed and put in place to cover these WCGW?			
B22	Have any breaches of financial limits of authority (relating to a significant process) been resolved and appropriately reported?			
B23	Has there been a review to ensure that no departures from these authority limits have occurred?			
B24	Have control matters previously raised by the auditors in management letters been addressed in a mutually agreed manner?			
B25	Has appropriate segregation of duties been implemented and complied with in areas of conflicting responsibility?			

SECTION C: Fraud and corruption		Yes	No	N/A
Company wide questions				
C1	Is there a clear understanding of what the 'tone from the top' is and is this being communicated effectively throughout the company?			
C2	Are your policies and procedures and organisational codes adequate to inform/guide/prescribe conduct and organisational expectations in relation to fraud and corruption control?			
C3	Do you currently have strategies in place to prevent, detect and respond to fraud and corruption? Are these strategies considered effective and overarching?			
C4	Is there clear ownership/responsibility and accountability for the coordination of fraud and corruption control efforts within the organisation?			
C5	Does the business appreciate that everyone has a role to play in fraud and corruption risk management?			
C6	Do you understand what your fraud and corruption risk profile is? Are adequate steps being taken to ensure this profile is current and/or reflects changes in your operating environment and the economy in general?			
C7	Are you making use of all available resources within the company to combat fraud and corruption, for example internal audit, risk and compliance functions, technology, internal and external audit parties?			
C8	Do you engage effectively with all your stakeholders to manage fraud and corruption risk?			
C9	Do the board and the audit/risk committee(s) regularly receive summarised versions of status and performance of the critical fraud and corruption control measures? Are regular reports compiled and provided to the audit committee in relation to: a Breaches of the code of conduct? b Status and reviews of the fraud and corruption control plan? c The number of fraud risk assessments undertaken throughout business units? d The number of employees who have completed fraud awareness training? e The number of whistleblower disclosures and what has been done with this information? f The number of fraud investigations underway and the outcomes of investigations that have been completed?			
C10	Have you challenged the effectiveness of fraud control measures (such as employee awareness and use of key organisation level controls including a whistle blowing avenue to report suspicions of fraud or corruption)?			
C11	Is the whistleblower program operating effectively?			
C12	Are employees adequately trained to recognise and report fraud and corruption?			
C13	Have employees whose role it is to receive and manage reports of fraud received adequate training, including in the investigation process?			
C14	Are the fraud and corruption investigation procedures providing effective feedback of results from fraud and corruption investigations into the internal control framework?			
Business unit specific questions				
C15	Are there adequate processes in place to prevent and control fraud and corruption in your business unit?			
C16	Are you satisfied that the fraud and corruption control plan in place in the business unit (to execute the strategic fraud control approach) is operating as intended?			
C17	Is there an effective program of regular fraud and corruption risk assessments in place within your business unit?			

SECTION D: Regulatory and policy compliance		Yes	No	N/A
D1	Are you satisfied that all relevant legislation and regulations relating to financial reporting have been complied with? [In particular, but not limited to, <i>Corporations Act 2001</i> , Australian Securities and Investments Commission class orders and requirements and ASX listing rules.]			
D2	Have all communications from regulatory agencies concerning non compliance or deficiencies in financial reporting practices been satisfactorily resolved?			
D3	Have any violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial report or as a basis for an expense been appropriately accounted for and disclosed?			

SECTION E: Record keeping		Yes	No	N/A
E1	Are appropriate record keeping arrangements in place?			
E2	In assessing the adequacy of financial records have you taken into account the definition of what constitutes financial records in accordance with the <i>Corporations Act 2001</i> ?			
E3	Do the accounting records correctly record and explain the transactions and financial position and performance of your area of responsibility?			
E4	Do the financial records enable financial statements that present a true and fair view to be prepared and audited?			
E5	Has all safekeeping and archiving of records in your area been conducted through the company's documents administration?			
E6	Are all records that are kept electronically capable of being converted into hard copy within a reasonable amount of time (as required in accordance with section 288 of the <i>Corporations Act 2001</i>)?			
E7	Have the following registers been adequately maintained: <ul style="list-style-type: none"> ▸ Members? ▸ Options? ▸ Debenture holders? ▸ Prescribed interests? ▸ Charges? ▸ Unclaimed property? 			
E8	Have minutes of directors and members meetings been adequately maintained?			





About the Group of 100

The Group of 100 (G100) is an organisation of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness.

www.group100.com.au

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