

## End of Year Accounts Preparation

incorporating

- Hints & Tips,
- Checklists for the GPFR & Special Schedules

and

- How to Successfully Navigate the Audit!

# End of Year Accounts Preparation incorporating Hints & Tips, Checklists and How to Successfully Navigate the Audit

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8. **Items to Note: Copyright and Disclaimer**

## 1. Introduction

As Finance Practitioners, the term “Year End” represents the time to roll up the sleeves, “baton down the hatches” and prepare that once a year creation which is the **End of Year General Purpose Financial Reports** (GPFR’s) of the Council.

As is always the case in the world of accounting, the name for the GPFR’s of Council have many aliases – going also by the names of “**Annual Accounts**”, “**Annual Statements**”, “**Council’s Accounts**” and “**Year End Reports**” just to name a few!! While the names are different, the content is all the same!

“Year End” represents that part of the accounting cycle which signals the end of one reporting period and the beginning of another. It is in fact an artificial “line in the sand” drawn so as to be able to measure an entity’s Financial Performance (for a period), it’s Financial Position (as at a point in time) and compare it to previous years and where the entity thought should be and how it would get there!

Generally there has always been a “veil of mystique” over the end of year process and in preparing the “Year End Accounts” which “rise from the ashes” of the General Ledger. **If it is all put in context however, the YE Accounts process should really not have as mystical nor dramatic a reputation as they have earned!**

This “**demystification**” of the Year End Accounts is no better described than within accounting standard **AASB 101 – Presentation of Financial Statements**, part of the new 2005 suite of Australian Equivalents to International Financials reporting Standards.

**In particular, AASB 101 – paragraph 30** states:

“Financial reports result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function.

The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the Balance Sheet, Income Statement, Statement of Equity, Cash Flow Statement or in the notes.”

The reality of it all is that the End of Year Accounts Preparation Process can be likened to a Jig Saw – where 90% of the pieces are already in front of the preparer (in the form of the General Ledger and the transactions that have occurred during the reporting year). The 10% balance (required to finalise the jig saw) represents those Year End Entries and Accruals that due to timing issues are not already reflected in the GL.

When **all the transactions** are finally together in the GL, it is then a case of fitting the pieces together in the shape and form that represents the requirements of both **(i)** Australian Accounting Standard Requirements and **(ii)** the Statutory Requirements under the Local Government Code of Accounting Practice.

**Sounds easy – huh!??**

If the process is organised in an orderly fashion, appropriate time is set aside for the process, and the data and/or preparation is not left till the final due date, then the pieces of the jigsaw should all come together and your Council’s End of Year Statements

should not be as big a drama as they can be perceived to be and undoubtedly can (and do) become for some Councils!

**So without holding back any longer, it's time to commence our review on how to make the End of Year Accounts Preparation and the subsequent Audit of Councils YE Financial Reports as easy as possible by making sure that all the pieces are there in the first place and fit together in the easiest and most hassle free way possible!!**

**In closing, we wish you all some productive reading from the pages ahead and a successful preparation and audit outcome for Councils 06/07 Accounts!**

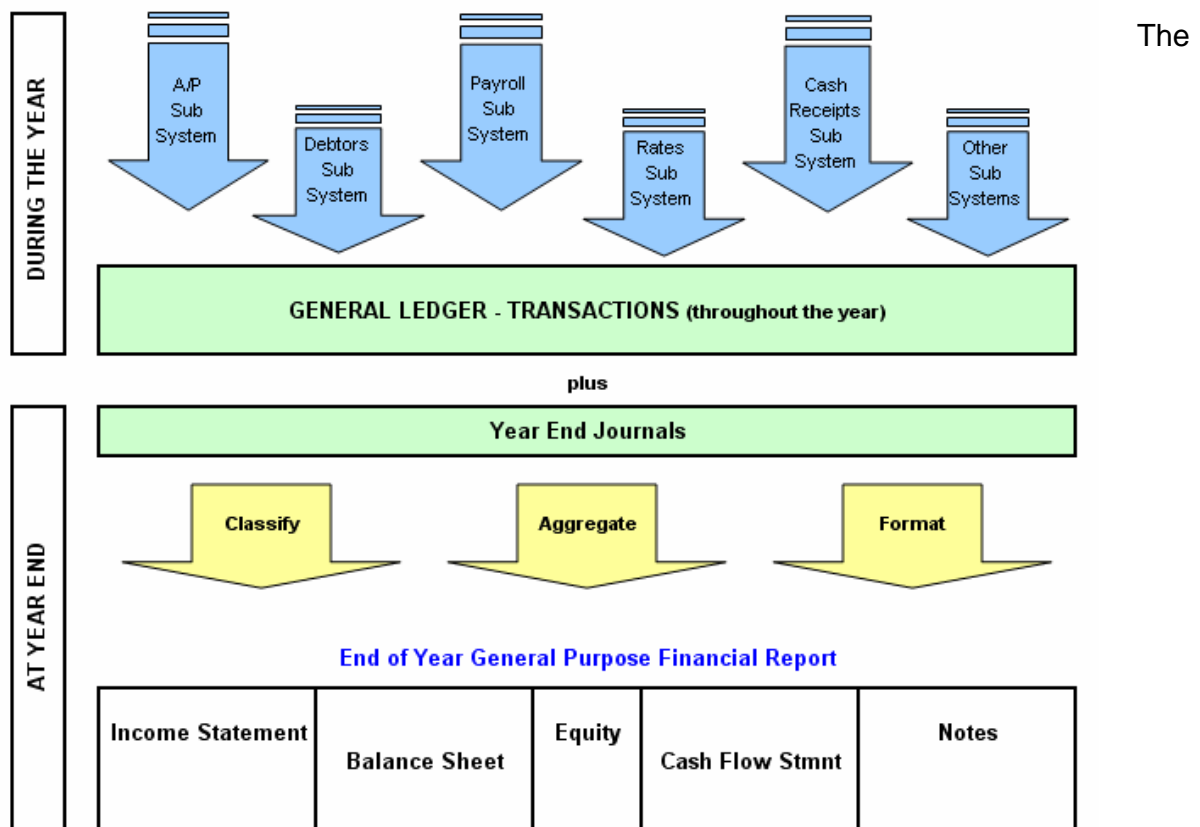
## 2. The General Ledger

### 2.1 Getting It Ready

As we described in our Introduction, the General Ledger really holds all the pieces of the Jig Saw which when put together will make up your Year End Accounts!

#### Classification:

As was so adequately described in **AASB 101**, the whole process and the importance of the General Ledger can be shown diagrammatically;



Centre piece of every General Ledger is the **account key structure** against which sub system transactions are posted to.

It is therefore not surprising that one of the “essentials” to a hassle free Year End Accounts process lies in a robust General Ledger Account Key.

Without a logical yet flexible design which takes into account Councils actual reporting requirements for Year End, the aggregation and classification for Year End Accounts will unfortunately be a long drawn out affair.

What this all means of course is that come year end, it’s too late to realise that your account key structure (representing lowest levels used to capture sub system posting details and individual transactions) does not fit in with the Year End Reporting requirements and/or the multitude of disclosures required!

NSW Councils for example are required to report by (i) TYPE and (ii) Function across Income & Expenses, Net Profit/Loss, Grant Income and Gross Assets. This does not even touch on Councils own individual internal reporting classifications (including Budget Control, Management Planning and Annual Reporting).

The costing of all sub system entries (and transactions) which forms the automatic basis upon which the classification and aggregation process for the Year End Accounts actually occurs is through the series of lowest level posting General Ledger Accounts which hold each individual sub system transaction.

NB. The actual name for the lowest level postable GL account varies between Councils and GL Systems, eg. Job Number, Account Number, Cost Code etc – but regardless of name, they all represent the lowest level within the General Ledger where transactions are held and more importantly they form the very basis upon which the numbers that make up the Year End Account figures come from. Never forget that balances in the YE Accounts must ultimately come from one or more individual transactions!

Generally Finance Managers inherit the exiting General Ledger & Account Key Structure which is used for coding and classifying transactions (when they take over the reins from the previous incumbent).

Ideally a GL Account Structure should be in the form such as “**PPPP.SSS**”, where the **PPPP** represents the prefix of the number, being the “Reason for the Income/Expense (or Function)”, while the **SSS** represents the suffix, being the “Type of Income/Expense/Balance Sheet” item.

The **PPPP** component represents **unique** alpha/numeric numbers, while the **SSS** component is usually **generic** across all of Council!

Eg. **12345.111** – where **12345** represents Library Expenditure, and **111** represents Salaries and Wages,

**98765.611** – where **98765** represents Financial Accounting and **611** represents Audit Fees, and

**98765.111** – where **98765** represents Financial Accounting and **111** ofcourse represents Salaries and Wages.

What such a Account Key Structure then permits is the dissection, classification and aggregation of the GL by both Function and Type – which is crucial to the GL being able to provide Reports to suit many masters, including the Year End Account Process.

Some General Ledgers also have various functionality that permits invisible “hooks” to be attached in the background to further classify & aggregate these lowest level balances!!

But all is not lost, if this is not how your GL system works or in how your Account Structure is formed.

While a **PPPP.SSS** structure is the most efficient and flexible for getting the most from your GL regarding reporting, other structures generally will just mean that their will be more reliance on the “feeder” sub systems to produce the level of detail required for certain disclosures etc. Less flexible, more time consuming – but not impossible!

**And a general hint if you are thinking of modifying your account key or completely redefining it – take it from experience.....reconfigure any new Account Key Structure for a 1/7 start rather than within a current year!!**

But having said that your General Ledger Accounting Key is paramount to preparing the Year End Accounts, the aggregation of Sub System entries within GL accounts is of no use if the initial transactions have not been costed to the right account in the first place!!

But after a minimum of 3 Budget reviews & reports to Councils etc, one would assume that a lot of the “costing quality control” (that is inherent with comparing Budget vs. Actuals during the year) has taken place and “weeded out” obvious costing errors with the necessary journals effected to get everything into the right area!!

**So the important thing to take from all of this is that the more perceptive you are during the year with reviewing the day to day costings and entries in the general ledger, the more correct and easier the year end aggregation and GPFR process will be – so stay attentive during the year!!**

Another important issue to remember is that the Preparation of the Year End Accounts is in fact not a one off end of year process - it is in fact just the finished product based upon the accumulation of a years work by all the accounting staff!!

**This is an important thing to remember and accordingly, “Year End” should just be another month end!**

### **Aggregation:**

The Aggregation process represents the summing up of Council’s General Ledger posting accounts to achieve the necessary summary amounts that are required for disclosure on the face of the Statement of Financial Performance and Statement of Financial Position as well as within the accompanying Notes.

**NB. Generally the Statement of Changes in Equity and Statement of Cash Flows are “derived” reports which are calculated from the figures reported within the Statements of Financial Performance and Financial Position.**

Provided (as discussed above) that the right account key structure is in place, **the aggregation process should be the easy part of the Year End Accounts preparation.**

So again, the importance of designing your account key based upon what your reporting requirements will be and in correctly posting transactions throughout the year comes to fruition during the aggregation process.

And of course if your account key and sub system posting process leave a bit to be desired, or is more “economical” in its design/depth and therefore its “reporting ability”, then the aggregation and disclosure process will rely on the interrogation of the various subsystems including the payroll system, creditors system, assets system, rating system etc. **Again, this “back door” method of aggregating and classifying is not impossible but it is time consuming and reconciliation intensive.**

## **Format:**

While the basis of Councils Budget Review reports and other Internal Reports of a Financial Nature are all user defined and customised, the nature of a General Purpose Financial Report is very much prescribed – essentially to ensure the comparability of Statements across the Industry and between Industries as well as prescribing the mandatory disclosure of specific items that are deemed to be of interest to report users.

For Local Government and the Year End Accounts, these reporting requirements mean dual prescription from both **(i)** the Australian Accounting Standards Board (AASB) through Australian Accounting Standards (specifically AIFRS) and **(ii)** the Department of Local Government through its Code of Accounting Practice.

Whilst it is all too obvious to state, it should be remembered that the Year End Accounts need to comply in both **(i)** format and **(ii)** necessary minimum disclosures required by both authorities!

Luckily this should be easily at hand, with example Year End Accounts available from the Department of Local Government which are published in its annual Code of Accounting Practice and thru various templates available on the Open market that enable Councils to comply with the necessary requirements.

**The only thing we will say is that by their very nature and prominence, a Council's Year End Accounts represent the very public and eventually historical perspective on your Councils Financial Record for each financial year.**

**Accordingly, it is our opinion that the look and feel of the Year End Financial Reports as presented to Council (and the Public) and as submitted to the Department of Local Government deserve to be of a high presentation quality – being clear and orderly, neat & tidy.**