Directors Responsibilities for Financial Reporting:

WHAT YOU NEED TO KNOW

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About this publication

This publication has been prepared to assist directors, to understand and fulfil their responsibilities in relation to financial reporting. It has been specifically prepared for members of ACCA and CA ANZ to provide to directors who do not have a financial background to assist them in understanding their responsibilities.

Contents

Introduction

Directors are instrumental in how well an entity fulfils its financial reporting obligations. This paper aims to help directors understand their responsibilities in relation to financial reporting and provide practical ideas on how these responsibilities can be fulfilled.

While directors have a wide range of responsibilities, this paper focuses on directors' responsibilities in relation to financial reporting. The appendices sets out common requirements across different sectors and jurisdictions and includes references and resources which outline some of these requirements. There may well be more specific requirements to meet. Requirements for listed companies are generally more extensive and Stock Exchange listing requirements and corporate governance codes also provide more detailed requirements. We have not included full details of these requirements in this paper. Although such requirements and codes are not mandatory for non-listed companies and other entities, they can provide useful best practice guidance.

The paper is structured around the following five questions:

1. **Who** is responsible for financial reporting?
2. **Why** are directors responsible for financial reporting?
3. **What** are directors responsible for in relation to financial reporting?
4. **How** do directors discharge their financial reporting responsibilities?
5. **When** do directors discharge their financial reporting responsibilities?

Being a director is a big responsibility. Directors have primary responsibility for the provision of useful and meaningful information for investors and other users of the financial statements.

"Directors are primarily responsible for the quality of the financial report." [1]

While directors are not expected to be accounting experts, they do need to be engaged and seek explanation to support the accounting treatments chosen and, where appropriate, challenge the accounting decisions applied in the financial report. As a director it is also important that you seek advice where a treatment does not reflect your understanding of the substance of an arrangement. We explore how you can fulfil your responsibilities for financial reporting throughout this paper.

1 Australian Securities & Investments Commission (ASIC) *Audit inspection program report for 2015-16*, June 2017 available at: download.asic.gov.au/media/4331127/rep534-published-29-june-2017.pdf

1. Who is responsible for financial reporting?

Each participant in the financial reporting process has a role in ensuring that relevant, useful, comparable and consistent financial information is provided to enable users to make informed decisions.

The following diagram highlights the key participants in the financial reporting supply chain and indicates the interaction between each of them.

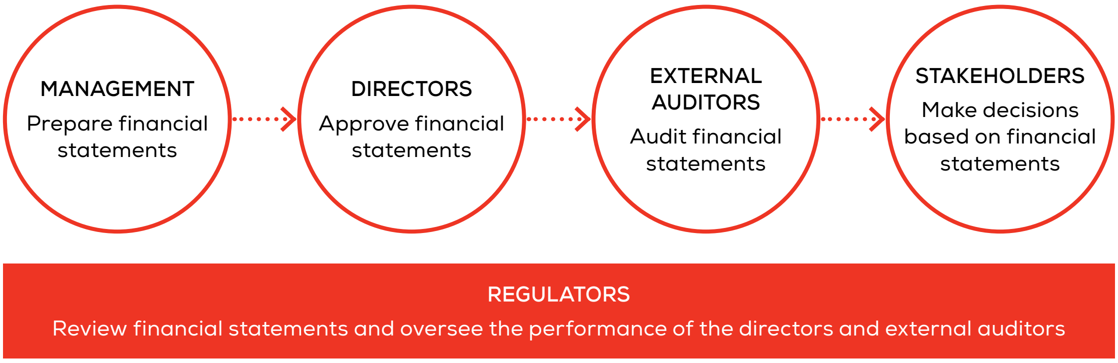

Figure 1: Key participants in the financial reporting supply chain

The key points to highlight in relation to the financial reporting process are:

- **Management** are responsible for preparing the financial statements and for the effective operation of the internal control system and related processes. External providers, such as accounting firms, may be engaged by management to perform some of these tasks[2].
- **Directors** (trustees, councillors, or those charged with governance more broadly) are responsible for overseeing the financial reporting processes undertaken by management. They have ultimate responsibility for ensuring that legislative requirements in relation to financial reporting, such as filing with regulator bodies and providing financial information to investors / shareholders, are complied with.
- **External auditors** (if an audit is required or the organisation has elected to have one) carry out the independent audit of the financial statements. External auditors report to the shareholders or investors through an external audit report. Engagement with the external auditors is generally undertaken by the directors on behalf of the shareholders. Day-to-day interaction during the audit process is usually between the external auditor and management.
- **Stakeholders**, such as shareholders, investors and other providers of debt capital are the 'consumers' in the financial reporting supply chain. They use the information in the financial reports and make decisions based on this information. Other stakeholders, such as customers, suppliers, employees, volunteers, potential funders and the wider community, may also have an interest in the financial performance of an organisation and use the information in the financial reports to make decisions.
- **Regulators**, depending on the type of organisation and the jurisdiction it is operating in, are responsible for overseeing the entity's financial reporting compliance, and in some jurisdictions, the external auditors.

In addition, some organisations also have:

- **Audit committees** are common in larger organisations. This is where the board sets up a separate sub-committee, often referred to as an audit committee, to oversee the financial reporting and audit processes. Such a committee should report back regularly to the full board so that all directors are up-to-date and engaged with financial reporting matters.

2 *'Directors could seek professional accounting advice and/or outsource to professional accounting service providers the keeping of accounting and other records and the preparation of financial statements. However, they remain responsible and should ensure any such advice and/or service(s) are provided by suitably qualified persons with an appropriate level of expertise and knowledge of the accounting standards, and that such advice is unbiased and objective'.* Singapore Code of Corporate Governance 2012 available at: mas.gov.sg/~/media/resource/fin_development/corporate_governance/cgcrevisedcodeofcorporategovernance2may2012.ashx

- **Internal auditors** are sometimes engaged by organisations to provide assurance over specific areas, therefore they are not independent. Internal auditors may be permanent staff members, an external firm, or individuals engaged for specific assurance projects.

This paper outlines the responsibilities that directors have in the financial reporting process. Directors is the broad term used throughout the paper to refer to those with collective responsibility for the governance of an organisation. This may include trustees, councillors and members.

THOSE CHARGED WITH GOVERNANCE DEFINED

The term those charged with governance is defined as *"the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting processes[3]".* Depending on the organisation these may be the directors, trustees, councillors or a variety of other terms. The term 'director' is used throughout this paper to refer to those charged with governance.

All directors are collectively responsible for meeting their obligations in relation to annual financial reporting. Therefore every director is required to understand the financial information being presented and the processes behind the preparation of such information.

While it is common for directors to seek external advice and information to assist them in fulfilling their responsibilities (including delegating tasks to management, accounting firms and/or an audit committee) it is important to note that directors are not able to delegate their responsibilities for financial reporting.

There is a key distinction to be made between directors and management. On a more general level, management is responsible for the operational processes of an organisation and directors, or those charged with governance, are responsible for strategic oversight of the organisation and for ensuring that management processes are effective. In some cases those charged with governance may also be members of the organisation's executive team and, as such, there may be some overlap between these roles.

2. Why are directors responsible for financial reporting?

Director's duty of care

Directors' responsibility for financial reporting arises from the duty of care directors have to the organisation it is governing. This duty of care is generally written into legislation and other regulatory requirements around the world. For example, in Australia directors' duty of care is provided for in the Corporations Act 2001. In New Zealand the Companies Act 1993 introduces the requirement, stating that: *A director of a company, when exercising powers or performing duties as a director, must exercise the* ***care, diligence, and skill*** *that a reasonable director would exercise in the same circumstances….*[4] Appendix One provides similar examples for various jurisdictions. These legislative requirements are often supplemented by a formal written agreement between the organisation and the director outlining further specific terms of appointment, including responsibilities for financial reporting.

The organisation, by virtue of not being a natural person[5], cannot fulfil any obligations itself. Directors are accountable, on behalf of the entity, to those who provide the entity with capital to operate. For companies this is usually shareholders, investors and financiers. For charities this is usually funding agencies and donors and for public sector entities this is usually taxpayers and ratepayers. Financial statements are one of the primary vehicles for directors to demonstrate their accountability to those who fund the organisation.

3 As defined in ISA 260 (Revised) *Communication With Those Charged With Governance* available at: ifac.org/system/files/publications/files/ISA-260-Revised_1.pdf

4 Section 137, Companies Act 1993, available at: legislation.govt.nz/act/public/1993/0105/latest/whole.html#DLM320655

5 This term is defined in Appendix Three

3. What are directors responsible for in relation to financial reporting?

"Directors do not need to be accounting experts"[6].

However, directors do need to have sufficient financial literacy to understand, monitor and direct the organisation. In practice this means:

Directors are expected to	Directors are not expected to
Be able to read and understand the financial statements and to form a view on the accuracy, credibility and understandability of the information presented.	Review transactions or reconciliations.
Understand the processes in place to prepare and review the financial statements.	Prepare the financial statements. Have detailed knowledge of the operation of the system of internal controls.

More specific responsibilities in relation to financial reporting, which may be undertaken by an audit committee or another sub-committee of the board if one has been set up, commonly include:

- Approving the annual budget and monitoring adherence to the budget
- Establishing whether adequate and appropriate financial reporting systems and processes are in place to enable directors to assess the financial performance and position of the organisation and its compliance with relevant laws and regulations
- Reviewing and approving the financial statements and determining whether the financial statements are prepared using the appropriate financial reporting framework (such as International Financial Reporting Standards[7] or National Generally Accepted Accounting Practice[8])
- Liaising with the external auditors, if applicable, and overseeing the quality and independence of the external audit process, including approving the audit fee and scope of the audit.

The key responsibilities have been elaborated on below.

The financial statements

Financial statements should be prepared in accordance with the applicable financial reporting framework, which is often prescribed in legislation. In addition, the financial statements should reflect directors' knowledge and understanding of the organisation, its industry and the wider environment. If the information included in the financial statements does not appear to be consistent with directors' expectations, it would be appropriate to undertake further due diligence and challenge the information presented. An appropriate questioning approach is essential to effectively challenge those preparing the financial statements and, where applicable, the external auditors. Examples of questions that may be posed to management and the external auditor are provided in Appendix Two.

When reviewing the financial statements, directors should make sure the financial statements are balanced, fair and not misleading[9]. A large quantity of complex information is not necessarily informative for users. It is important that the financial statements are consistent with the rest of the information available to users so that they are not confusing or misleading.

6 ASIC media release available at: asic.gov.au/about-asic/media-centre/find-a-media-release/2016-releases/16-174mr-asic-calls-on-directors-to-apply-realism-and-clarity-to-financial-reports/

7 Ibid 5

8 Ibid 5

9 In the UK the term "balanced, fair and understandable" is used. This is included in the UK Corporate Governance Code 2016 available at: frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2016.pdf. The New Zealand Corporate Governance Code requires directors to ensure the financial statements are "balanced, clear and objective". Directors of listed entities should consult their relevant stock exchange corporate governance code for the specific requirements of their jurisdiction.

Directors are commonly responsible for reviewing the other information presented in the Annual Report to ensure it is consistent with the management information they have received, and the information contained in the financial statements.

Financial reporting systems and processes

Directors should obtain an understanding of the key policies, procedures and processes management follow in preparing the financial statements. These policies, procedures and processes are generally referred to as the 'internal control framework'. Such internal controls would generally include checking and reviewing processes to ensure that the information used to compile the financial statements is accurate, verifiable, balanced and timely.

Internal control systems help ensure the financial information generated by the accounting system is properly authorised, reliable, consistent, timely, relevant and complete. While management are responsible for implementing internal controls, directors should monitor the on-going adequacy of operating effectiveness of internal controls. This is normally performed through the director's oversight of management reporting, internal audit and the external audit.

Accounting policies

Directors should consider the appropriateness of the accounting policies used to prepare the financial statements and the key areas of judgement and estimation involved in the preparation of the financial statements. For example, an organisation may have a policy of depreciating its computer equipment by 33% each year, based on the assumption that computer equipment will be upgraded every 3 years. As a director a good 'test' would be to ask management whether this policy is generally followed in practice (ie how often computer equipment is upgraded). Management should be able to provide evidence to support their judgements if required.

Reviewing assumptions and judgements

Directors also have a key role in understanding and approving the assumptions adopted by the organisation and the key areas of judgement and estimation applied in preparing the financial statements. An example of such an assumption is the 'going concern[10]' assumption. Financial statements are prepared on either a going concern basis or a 'wind-up[11]' basis. Directors often have specific responsibilities where the going concern assumption is in doubt, such as reviewing forecasts and ensuring that adequate financial support is in place should the organisation need it. Reviewing the validity of the going concern assumption is different to assessing the solvency of an organisation (see top tip below).

TOP TIP: SOLVENCY VS GOING CONCERN

There is often confusion between these two concepts.

Solvency: There are two types: cash-flow solvency – when an entity is able to pay its debts as they fall due; and balance-sheet solvency – when assets exceed liabilities, including contingent liabilities. Directors are generally responsible for ensuring the organisation does not continue to trade while it is insolvent.

Going concern: When an organisation is able to, and intends to, continue to operate for the foreseeable future[12]. This is usually regarded as being at least 12 months from the organisation's balance date or the date the financial statements were approved (depending on the applicable financial reporting framework).

10 This term is defined in Appendix Three

11 Ibid 11

12 International Accounting Standards Board (IASB) Conceptual Framework, Para. 4.1

The audit process

If the organisation's financial statements are required to be audited, directors are generally responsible for overseeing the external audit process, including auditor appointment, and the quality and independence of the audit process. The external auditor will generally ask the Chair of the board to sign a letter of representation[13], on behalf of those charged with governance, acknowledging and confirming their responsibility for financial reporting and ensuring there are appropriate internal controls[14] in place to prevent and detect fraud[15].

Auditor independence

For auditors to effectively challenge management's assertions it is important that they are independent of the organisation. In most jurisdictions there are legislative requirements and/or professional and ethical standards which prescribe the independence of the auditor. These may include whether the auditor is permitted to have a financial interest in the entity, the extent to which non-audit services (such as tax compliance or consultancy services) can be provided and the frequency with which the audit partner and others involved in the audit need to 'rotate' in order to safeguard their objectivity. Directors should ensure that a framework is in place to monitor compliance with these requirements.

Audit quality

Directors, particularly those with a financial background and/or those on the audit committee, may be able to influence the quality of the audit process through:

- Providing views on financial reporting risks and areas of the business that they consider warrant specific audit attention;
- Considering whether sufficient audit resources will be allocated for the audit to be effectively performed and that the audit fee fairly reflects this;
- Questioning and assessing the auditors' approach to challenging subjective areas relating to the financial statements such as assessment of fraud risk, validity of management's estimates and assumptions, and the choice of accounting policies; and
- Creating an environment in which management is not resistant to being challenged by the auditors and is not overly defensive when discussing difficult or contentious matters.

To do this directors need to have the opportunity for open and candid communication with the external auditor and management, particularly where sensitive issues are involved. It is also good practice for the Chair of the Board, or audit committee, if one has been established, to meet with the external auditor without management present.

If the auditor is required to include Key Audit Matters (KAM) within the audit report then it is important that directors discuss these early on in the audit process. CA ANZ have produced an information sheet[16] for directors which provides more information on KAM.

13 The requirement to obtain a letter of representation from directors is contained in ISA 580 *Written Representations* available at: http://www.ifac.org/system/files/downloads/a032-2010-iaasb-handbook-isa-580.pdf

14 This term is defined in Appendix Three

15 Ibid 15

16 *Information Sheet For Audit Committees On Key Audit Matters* available at: charteredaccountantsanz.com/-/media/63e631a97675430d949099dd3b0541bd.ashx

4. How do directors discharge their financial reporting responsibilities?

The real strength of directors' compliance with financial reporting responsibilities is how well directors discharge these responsibilities. A good director will challenge the information and ideas presented by management and other parties and approach their role with an open mind.

Professional scepticism: *Even if they are not accounting experts, directors should question the accounting treatments applied when the treatment does not reflect their understanding of the substance of arrangement. They should also apply professional scepticism when assessing management views' on areas of significant judgement and estimates*[17].

Legislation in some jurisdictions specifies the approach directors are required to take in discharging their duties. As stated in Section Two, directors have a duty of care to those who provide funding to the organisation. This duty specifies how directors undertake their duties, generally requiring directors to apply a certain level of skill and diligence.

Director's duty of care: *Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.*[18]

Given the collective nature of director's responsibilities, it is not appropriate for directors to place complete reliance on the expertise of others, including fellow directors. However, it may be useful to consult those with a financial background for guidance and advice to assist in understanding financial terms, processes and requirements. A fellow director may be the best person to approach in the first instance.

Financial literacy: *Directors are not expected to be accounting experts, but should have sufficient and up-to-date knowledge of the accounting principles and practices to perform an effective high-level review of the financial statements. Otherwise, directors should seek help and/or attend training*[19].

17 Accounting and Corporate Regulatory Authority (ACRA) Practice Direction No. 2 2014 (Annex A) available at: acra.gov.sg/uploadedFiles/Content/Publications/Practice_Directions/2014/20140417_PDonFRSPfinal.pdf

18 *G20/OECD Principles of Corporate Governance* available at: oecd-ilibrary.org/docserver/download/2615021e.pdf?expires=1505859233&id=id&accname=guest&checksum=4345FCFBD09C863958069F2AB7EB06D2

19 Ibid 17

5. When do directors discharge their financial reporting responsibilities?

While financial statements are generally prepared on an annual basis, it is important that directors provide continuous oversight over the financial position of the organisation, rather than just considering it at the end of a reporting period.

Regular (ie monthly) financial reporting review processes can help to identify issues and ensure they are resolved in a timely manner. As such, it is good practice for directors to review the financial reports prepared by management at each board meeting. This will help to support and inform the directors' review of the financial statements at the end of the financial year and forms an important part of the internal control framework.

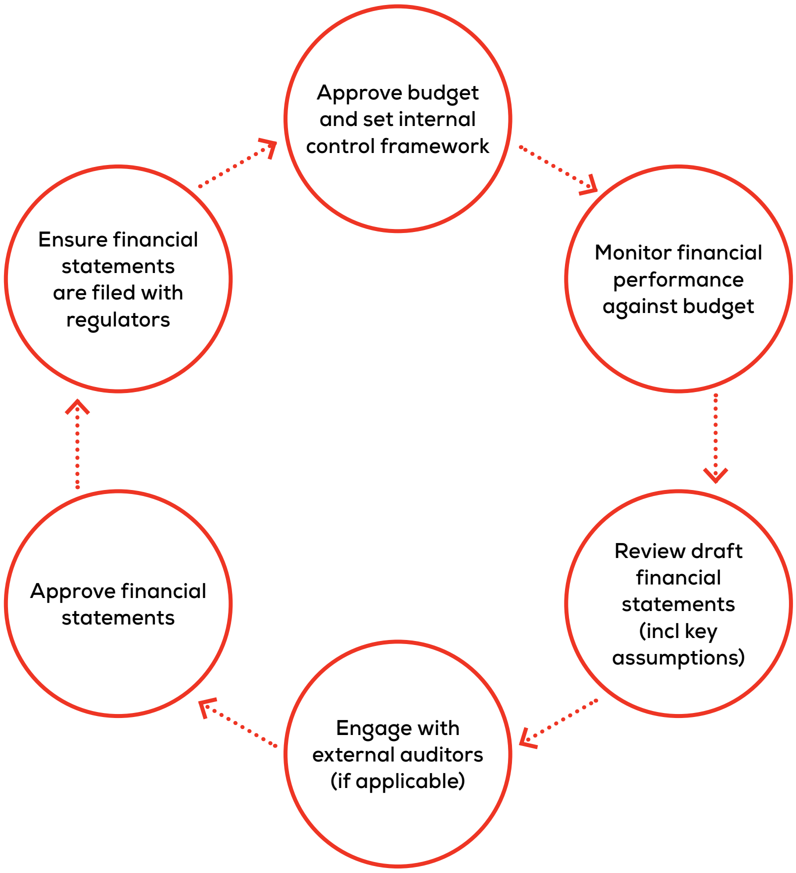

Figure 2: Overview of the financial reporting process

Appendix One: Examples of legislative references outlining directors responsibilities for financial reporting

AUSTRALIA[20]

Responsibility	Reference(s)
Duty of care	**Australian Charities and Not-for-profits Commission** **Governance Standard 5 Duties of responsible persons** *The duties can be summarised as follows:* • *to act with reasonable care and diligence* • *to act honestly and fairly in the best interests of the charity and for its charitable purposes* • *not to misuse their position or information they gain as a responsible person* • *to disclose conflicts of interest* • *to ensure that the financial affairs of the charity are managed responsibly, and* • *not to allow the charity to operate while it is insolvent.* **Corporations Act 2001** **Section 180 Care and diligence – directors and other officers** *(1) A director or other officer of a corporation must exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they: (a) were a director or officer of a corporation in the corporation's circumstances; and (b) occupied the office held by, and had the same responsibilities within the corporation as, the director or officer.*
Keeping accounting records	**Associations Incorporations Act 1985** **Section 35 Accounts to be kept** *(1) A prescribed association must keep its accounting records in such a manner as will enable –* *(a) the preparation from time to time of accounts that present fairly the results of the operations of the association; and (b) the accounts of the association to be conveniently and properly audited in accordance with this Division.* **Australian Charities and Not-for-profits Commission Act 2012** **Section 55-5 Registered entities must keep records** *(1) A registered entity must keep written financial records that: (a) correctly record and explain its transactions and financial position and performance; and (b) enable true and fair financial statements to be prepared and to be audited; so as to enable any recognised assessment activity to be carried out in relation to the entity.* **Corporations Act 2001** **Section 286 Obligation to keep financial records** *(1) A company, registered scheme or disclosing entity must keep written financial records that: (a) correctly record and explain its transactions and financial position and performance; and (b) would enable true and fair financial statements to be prepared and audited.* **Superannuation Industry (Supervision) Act 1993 (SISA)** **Section 35 AE Accounting records** *The trustees must keep and maintain accounting records for a minimum of five years.*

20 In Australia state legislation also sets out directors responsibilities for financial reporting. For the purposes of brevity we have included federal legislative references only in this appendix.

Responsibility	Reference(s)
Preparation of financial statements	**Associations Incorporations Act 1985** **Section 35 Accounts to be kept** *(1) A prescribed association must, after the end of a financial year of the association – (a) cause accounts in respect of the financial year to be prepared;* **Australian Charities and Not-for-profits Commission Act 2012** **Section 60-10 Medium and large registered entities must give annual financial reports** *(1) A medium registered entity or a large registered entity must give the Commissioner a financial report for a financial year, together with any auditor's report or reviewer's report that the entity is required to obtain under section 60-20 or 60-25* **Corporations Act 2001** **Section 292 Who has to prepare annual financial reports and directors' reports** *(1) A financial report and a directors' report must be prepared for each financial year by:* *(a) all disclosing entities; and* *(b) all public companies; and* *(c) all large proprietary companies; and* *(d) all registered schemes.* Exemptions are available for small proprietary companies and companies limited by guarantee. **Superannuation Industry (Supervision) Act 1993 (SISA)** **Section 35B Accounts and statements** *(1) Each trustee of a superannuation entity that is a self managed superannuation fund must, in respect of each year of income of the fund, ensure that the following accounts and statements are prepared in respect of the entity:* *(a) except where the regulations provide that this paragraph does not apply – a statement of financial position;* *(b) except where the regulations provide that this paragraph does not apply – an operating statement;* *(c) the accounts and statements specified in the regulations.*
Audit or review of financial statements	**Associations Incorporations Act 1985** **Section 35 Accounts to be kept** *(1) A prescribed association must, after the end of a financial year of the association – (b) cause the accounts to be audited* **Australian Charities and Not-for-profits Commission Act 2012** **Section 60-20 Medium registered entities must have annual financial reports audited or reviewed** **Section 60-25 Large registered entities must have annual financial reports audited** **Corporations Act 2001** **Section 301 Audit of annual financial report** *(1) A company, registered scheme or disclosing entity must have the financial report for a financial year audited in accordance with Division 3 and obtain an auditor's report.* Exemptions are available for small proprietary companies and companies limited by guarantee.

Responsibility	Reference(s)
Overseeing system of internal controls	This requirement is implicit rather than explicit in Australian legislation. The following guidance is provided. **Australian Stock Exchange (ASX) Corporate Governance Code** **Recommendation 7.3 Recognise and manage risk** *A listed entity should disclose:* *(a) if it has an internal audit function, how the function is structured and what role it performs; or* *(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

HONG KONG[21]

Responsibility	Reference(s)
Duty of care	**Hong Kong Companies Ordinance Cap 622** **Section 465 Duty to exercise reasonable care, skill and diligence** *(1) A director of a company must exercise reasonable care, skill and diligence.*
Keeping accounting records	**Hong Kong Companies Ordinance Cap 622** **Section 373 Company must keep accounting records** *(1) A company must keep accounting records that comply with subsections (2) and (3).* *(2) The accounting records must be sufficient–* *(a) to show and explain the company's transactions;* *(b) to disclose with reasonable accuracy, at any time, the company's financial position and financial performance; and* *(c) to enable the directors to ensure that the financial statements comply with this Ordinance.* *(3) In particular, the accounting records must contain–* *(a) daily entries of all sums of money received and expended by the company, and the matters in respect of which the receipt and expenditure takes place; and* *(b) a record of the company's assets and liabilities.*
Preparation of financial statements	**Hong Kong Companies Ordinance Cap 622** **Section 379 Directors must prepare financial statements** *(1) A company's directors must prepare for each financial year statements that comply with sections 380 and 383.*
Audit or review of financial statements	**Hong Kong Companies Ordinance Cap 622** **Section 396 Appointment of auditor by company members** *(1) A company must appoint the auditor of the company for a financial year by a resolution passed at the annual general meeting held in respect of the previous financial year.*

21 The Hong Kong Companies Ordinance applies to directors of all companies in Hong Kong, including listed companies, small companies and non-governmental organisations (NGOs).

Responsibility	Reference(s)
Overseeing system of internal controls	Hong Kong Listing Rule, Appendix 14 **C.2.1 Risk Management and internal control** *The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.*

MALAYSIA

Responsibility	Reference(s)
Duty of care	Companies Act 2016 **Section 213(2) Duties and responsibilities of directors** *A director of a company shall exercise reasonable care, skill and diligence with – (a) the knowledge, skill and experience which may reasonably be expected of a director having the same responsibilities; and (b) any additional knowledge, skill and experience which the director in fact has.*
Keeping accounting records	Companies Act 2016 **Section 245(1) Accounts to be kept** *A company, the directors and managers of the company shall – (a) cause to be kept the accounting and other records to sufficiently explain the transactions and financial position of the company and enable true and fair profit accounts and balance sheets and any documents required to be attached thereto to be prepared; and (b) cause the accounting and other records to be kept in a manner as to enable the accounting and other records to be conveniently and properly audited.*
Preparation of financial statements	Companies Act 2016 **Section 248 Directors shall prepare financial statements** *(1) The directors of every company shall prepare financial statements: within 18 months from the date of its incorporation; and subsequently, within six months of its financial year end.*
Audit or review of financial statements	Companies Act 2016 **Section 248 Directors shall prepare financial statements** *(1) The financial statements referred to in subsection (1) shall be duly audited before the financial statements are sent to every members under section 257* or, in the case of a public company, sent to every member under section 257 and laid before an annual general meeting under section 340.*
Overseeing system of internal controls	Companies Act 2016 **Section 246(1) System of internal control** *The directors of a public company or a subsidiary of a public shall have in place a system of internal control that will provide a reasonable assurance that (a) the assets of the company are safeguarded against loss from unauthorised use or disposition and to give a proper account of the assets; and (b) all transactions are properly authorised and that the transactions are recorded as necessary to enable the preparation of true and fair view of the financial statements of the company.*

NEW ZEALAND

Responsibility	Reference(s)
Duty of care	Charities Act 2005 **Section 8(4) Establishment, functions, duties, and powers of Board** *In performing or exercising his or her functions, duties, or powers, each member of the Board – (a) must act independently in exercising his or her professional judgement; and (b) is not subject to direction from the Minister.* Companies Act 1993 **Section 137 Director's duty of care** *A director of a company, when exercising powers or performing duties as a director, must exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances taking into account, but without limitation, –* *(a) the nature of the company; and* *(b) the nature of the decision; and* *(c) the position of the director and the nature of the responsibilities undertaken by him or her.*
Keeping accounting records	Companies Act 1993 **Section 194 Accounting records must be kept** *(1) The Board of a company must ensure that there are kept at all times accounting records that –* *(a) correctly record the transactions of the company; and* *(b) will enable the company to ensure that the financial statements or group financial statements of the company comply with generally accepted accounting practice (if the company is required to prepare such statements under this Act or any other enactment); and* *(c) will enable the financial statements or group financial statements of the company to be readily and properly audited (if those statements are required to be audited).*

Responsibility	Reference(s)
Preparation of financial statements	**Charities Act 2005** **Section 42A Content of financial statements** *(1) The financial statements referred to in section 41(2)(b) must be prepared in accordance with, –* *(a) in the case of financial statements of a specified not-for-profit entity, generally accepted accounting practice; or* *(b) in any other case, either generally accepted accounting practice or a non-GAAP standard that applies for the purposes of this section.* **Companies Act 1993** **Section 201 Financial statements must be prepared** *Every company or overseas company to which this section applies (A) must ensure that, within five months after the balance date of A, financial statements that comply with generally accepted accounting practice are –* *(a) completed in relation to A and that balance date; and* *(b) dated and signed on behalf of A by two directors of A, or, if A has only 1 director, by that director.* **Financial Markets Conduct Act 2013** **Section 460(1) Preparation of financial statements** *Every FMC reporting entity must ensure that, within four months after the balance date of the entity, financial statements that comply with generally accepted accounting practice are (a) completed in relation to the entity and that balance date; and (b) dated and signed on behalf of the entity by two directors of the entity or, if the entity has only one director, by that director.* **Incorporated Societies Act 1908** **Section 23 Annual financial statement** *(1) Every society shall deliver annually to the Registrar, in such form and at such time as he requires, a statement containing the following particulars:* *(a) the income and expenditure of the society during the society's last financial year:* *(b) the assets and liabilities of the society at the close of the said year:* *(c) all mortgages, charges, and securities of any description affecting any of the property of the society at the close of the said year.*
Preparation of financial statements *continued*	*(2) The said statement shall be accompanied by a certificate signed by some officer of the society to the effect that the statement has been submitted to, and approved by, the members of the society at a general meeting.*

Responsibility	Reference(s)
Audit or review of financial statements	Charities Act 2005 **Section 42C(2) When financial statements must be audited or reviewed** *Every charitable entity to which this section applies (A) must ensure that the financial statements of A that accompany an annual return under section 41 are –* *(a) audited by a qualified auditor if A is large in respect of the accounting period to which the financial statements relate:* *(b) audited or reviewed by a qualified auditor if A is of medium size in respect of the accounting period to which the financial statements relate.* Companies Act 1993 **Section 207(1) Financial statements must be audited** *Every company or overseas company to which this section applies (A) must ensure that the financial statements or group financial statements prepared in respect of A under section 201, 202, or 204 (if any) are audited by a qualified auditor.*
Overseeing system of internal controls	This requirement is implicit rather than explicit in New Zealand legislation. The following guidance is provided. Financial Markets Authority Corporate Governance in New Zealand Handbook – Principles and Guidance December 2014 *All boards must maintain an effective system of internal control for reliable financial reporting and accounting records.* New Zealand Stock Exchange (NZX) Corporate Governance Code **Principle 6 – Risk Management** *Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.*

SINGAPORE

Responsibility	Reference(s)
Duty of care	Accounting and Corporate Regulatory Activity (ACRA) **Practice Direction No. 2 201 Directors duties in relation to financial reporting (Annex A) Review of financial statements** *Directors, whether executive or non-executive, should exercise care, competence and diligence in the review of the financial statements that are presented to shareholders and subsequently filed with ACRA.* Companies Act 2006 **Section 157(1) As to the duty and liability of officers** *A director shall at all times act honestly and use reasonable diligence in the discharge of the duties of his office.*
Keeping accounting records	Companies Act 2006 **Section 199(1) Accounting records and systems of control** *Every company should keep such accounting and other records as will sufficiently explain the transactions and financial position of the company and enable true and fair financial statements and any documents required to be attached thereto to be prepared from time to time, and shall cause those records to be kept in such manner as to enable them to be conveniently and properly audited.*
Preparation of financial statements	Companies Act 2006 **Section 201(1) Financial statements and consolidated financial statements** *The directors of every company shall, at a date not later than 18 months after the incorporation of the company and subsequently at least once in every calendar year at intervals of not more than 15 months, lay before the company at its annual general meeting the financial statements for the period since the preceding financial statements (or in the case of the first financial statements, since the incorporation of the company) made up to a date –* *(a) in the case of a public company that is listed, not more than four months before the date of the meeting; or (b) in the case of any other company, not more than six months before the date of the meeting.*
Audit or review of financial statements	Companies Act 2006 **Sections 201(9) Financial statements and consolidated financial statements** *The directors of the company shall –* *(a) take reasonable steps to ensure that the financial statements are audited as required by this Part not less than 14 days before the annual general meeting of the company, unless all the persons entitled to receive notice of general meetings of the company agree that the financial statements may be audited as required by this Part less than 14 days before the annual general meeting of the company; and* *(b) cause to be attached to those financial statements the auditor's report that is furnished to the directors under section 207(1A).*
Overseeing system of internal controls	Companies Act 2006 **Section 199(2A) Accounting records and systems of control** *Every public company and every subsidiary company of a public company shall devise and maintain a system of internal accounting controls sufficient to provide a reasonable assurance that –* *(a) assets are safeguarded against loss from unauthorised use or disposition; and* *(b) transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.*

UNITED KINGDOM

Responsibility	Reference(s)
Duty of care	**Charities Act 2011** **Section 221 Duties of charity trustees** *(1) Each charity trustee of a CIO must exercise the powers and perform the functions that the charity trustee has in that capacity in the way that the charity trustee decides, in good faith, would be most likely to further the purposes of the CIO.* *(2) Each charity trustee of a CIO must in the performance of functions in that capacity exercise such care and skill as is reasonable in the circumstances, having regard in particular –* *(a) to any special knowledge or experience that the charity trustee has or purports to have, and (b) if the charity trustee acts as such in the course of a business or profession, to any special knowledge or experience that it is reasonable to expect of a person acting in the course of that kind of business or profession.* **Companies Act 2006** **Section 174 Duty to exercise reasonable care, skill and diligence** *(1) A director of a company must exercise reasonable care, skill and diligence.* *(2) This means the care, skill and diligence that would be exercised by a reasonably diligent person with – (a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions carried out by the director in relation to the company, and (b) the general knowledge, skill and experience that the director has.*
Keeping accounting records	**Charities Act 2011** **Section 130 Accounting records** *(1) The charity trustees of a charity must ensure that accounting records are kept in respect of the charity which are sufficient to show and explain all the charity's transactions, and which are such as to – (a) disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and (b) enable the trustees to ensure that, where any statements of accounts are prepared by them under section 132(1), those statements of accounts comply with the requirements of regulations under section 132(1).* *(2) The accounting records must in particular contain –* *(a) entries showing from day to day all sums of money received and expended by the charity, and the matters in respect of which the receipt and expenditure takes place, and (b) a record of the assets and liabilities of the charity.* **Companies Act 2006** **Section 386(1) Duty to keep accounting records** *Every company must keep adequate accounting records.*

Responsibility	Reference(s)
Preparation of financial statements	Companies Act 2006 **Section 394 Duty to prepare individual accounts** *The directors of every company must prepare accounts for the company for each of its financial years. Those accounts are referred to as the company's "individual accounts".* Charities Act 2011 **Section 132(1)** *Preparation of statement of accounts The charity trustees of a charity must (subject to section 133) prepare in respect of each financial year of the charity a statement of accounts complying with such requirements as to its form and contents as may be prescribed by regulations made by the [Secretary of State].*
Audit or review of financial statements	Companies Act 2006 **Section 475(1) Requirement for audited accounts** *A company's annual accounts for a financial year must be audited in accordance with this part unless the company (a) is exempt from audit under section 477 (small companies), section 479A (subsidiary companies) or section 480 (dormant companies); or (b) is exempt from the requirements of this Part under section 482 (non-profit-making companies subject to public sector audit).* Charities Act 2011 **Section 144 Audit of accounts of larger charities** **Section 145(1) Examination of accounts an option for lower-income charities**
Overseeing system of internal controls	Standards of good practice in relation to board accountability are set out in the UK Corporate Governance Code (the Code). All companies with a Premium Listing of equity shares in the UK are required to report on how they have applied the Code in their annual report and accounts. This is a 'comply or explain' provision. The Code represents best practice for other organisations. UK Corporate Governance Code 2016 **Section C.2 Accountability** *The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.*

Appendix Two: Example questions

Questions for directors to ask management

- Can you give us a brief overview of the process for preparing these financial statements, including the review processes?
- What has made you confident about the accuracy and integrity of the financial information reported?
- What were the key assumptions made in preparing the financial statements?
- What were the areas requiring the most judgement and how did you mitigate any bias that may have affected these judgements?
- Have any external financial reviews been undertaken (ie by a regulator)? If so, what were the findings of these reviews and how are recommendations arising from the review being managed?
- If applicable, were the external auditors engaged to undertake any additional engagements (ie tax compliance or consultancy services)?

Questions for directors to ask the external auditor

- Do you think the financial statements provide enough information to help users understand the organisation and its performance?
- Are you aware of any attempts by management to inflate or deflate revenue or move to different accounting periods?
- Has our organisation's audit file been subject to review by an external regulator?
- If so, what were the findings of this review?
- What were the key areas of bias, such as financial incentives, commissions or bonuses, you considered during the audit?
- Are you aware of any non-compliance with laws and regulations relating to financial reporting?
- What do you consider to be the key audit areas for this organisation? [Auditors of listed entities in most jurisdictions are required to include commentary on KAM in their audit report. If this is the case, directors should assess how these matters align with their knowledge of the organisation and whether the way the auditor has addressed the matter is satisfactory].

Questions for directors to ask the external auditor to assess independence

- What is the amount and nature of services provided by your audit firm other than the audit?
- How long have the audit partner and firm been engaged?
- Does the audit firm, or members of the audit team, have any other relationships with management?

Questions for directors to ask the external auditor to assess quality and professional scepticism

- What areas of management judgement did you challenge during the audit?
- What were the responses to the challenges posed and are there any unresolved issues?
- In your view, what are the key risks to our organisation's financial statements (ie the key areas which may be susceptible to error or misstatement)?
- How have you challenged management's estimates and accounting policy choices (eg for complex or subjective asset valuations)?

Appendix Three: Glossary

Fraud: an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Generally Acceptable Accounting Practice (commonly referred to as GAAP): a common set of accounting principles, standards and procedures used in the preparation of financial statements. GAAP can be a combination of authoritative standards (set by national or international accounting standards boards) and the commonly accepted ways of recording and reporting transactions, and events. Compliance with GAAP is widely considered to improve the clarity of the communication of financial information. The International Financial Reporting Standards (below) are an example of an internationally recognised GAAP.

Going concern: an organisation that functions without the threat of liquidation for the foreseeable future, usually regarded as at least 12 months. The declaration of going concern means that the organisation has neither the intention, nor the need, to liquidate or materially curtail the scale of its operations.

Internal controls: the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

International Financial Reporting Standards (commonly referred to as IFRS): these are standards issued by the IFRS Foundation to provide a common global language for business reporting so that organisation's financial statements are understandable and comparable across international boundaries.

Natural person: a person that is an individual human being, as opposed to a legal arrangement such as a company.

Solvency: the quality or state of being able to pay all legal debts as they fall due.

Those charged with governance: the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the organisation and obligations related to the accountability of the organisation. This includes overseeing the financial reporting processes.

Wind-up: the legal process of selling all the assets of a business, paying off creditors, distributing any remaining assets to interested parties and then dissolving the business. This term is used mostly in the United Kingdom. Elsewhere in the world it is known as liquidation.

Appendix Four: Resources

Accounting and Corporate Regulatory Activity (ACRA), Monetary Authority of Singapore, Singapore Exchange Limited *Guidebook for Audit Committees in Singapore (Second Edition)* mas.gov.sg/~/media/MAS/Regulations%20and%20Financial%20Stability/Regulatory%20and%20Supervisory%20Framework/Corporate%20Governance%20of%20Listed%20Companies/Guidebook%20for%20ACs%202nd%20edition.pdf

Accounting and Corporate Regulatory Activity (ACRA), *Practice Direction No. 2 201 Directors duties in relation to financial reporting (Annex A)* acra.gov.sg/uploadedFiles/Content/Publications/Practice_Directions/2014/20140417_PDonFRSPfinal.pdf

Australian Institute of Company Directors (AICD) *Audit Committees: A Guide to Good Practice (Third Edition)* companydirectors.com.au/director-resource-centre/publications/book-store/audit-committees-a-guide-to-good-practice-3rd-edition

Australian Charities and Not-for-Profits Commission (ACNC) *Governance Standard 5: Duties of Responsible Persons* acnc.gov.au/ACNC/Manage/Governance/GovStds_5/ACNC/Edu/GovStandard_5.aspx

Australian Securities and Investment Commission (ASIC) *Financial Reporting Quiz for Directors* asic.gov.au/regulatory-resources/financial-reporting-and-audit/directors-and-financial-reporting/financial-reporting-quiz-for-directors/

ASIC Information Sheet 196 *Audit quality: The role of directors and audit committees* (INFO 196) asic.gov.au/regulatory-resources/financial-reporting-and-audit/auditors/improving-and-maintaining-audit-quality/

ASIC Information Sheet 183 *Directors and financial reporting* (INFO 183) asic.gov.au/regulatory-resources/financial-reporting-and-audit/directors-and-financial-reporting/

Australian Stock Exchange (ASX) *Corporate Governance Principles and Recommendations* asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf

Centre for Audit Quality *Questions on non-GAAP Measures: A Tool for Audit Committees* thecaq.org/questions-non-gaap-measures-tool-audit-committees

Chartered Accountants Australia and New Zealand *Guide for Community Financial Officers* charteredaccountantsanz.com/-/media/16b63ee1ad5544c1b6a7ea849110f0f0.ashx

Financial Reporting Council (FRC) *UK Corporate Governance Code* frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2016.pdf

Hong Kong Corporate Governance Code and Corporate Governance Report hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_14.pdf

Institute of Directors (NZ) *The Four Pillars of Governance Best Practice* iod.org.nz/FourPillars

Institute of Directors (NZ) *Financial Literacy Quiz* surveymonkey.com/r/IoDFinanceTest?sm=hUupMda7ty68gMRt%2bw9ozBZQBxZMBNu%2b4U6yrcO9jmc%3d

Institute of Directors (UK) *Competency Framework* iod.com/training/iod-approach/iod-competency-framework

Institute of Internal Auditors of Malaysia *Statement on Internal Control – Guidance for Directors of Public Listed Companies* iiam.com.my/guidance-and-advisory/

Monetary Authority of Singapore (MAS) *Code of Corporate Governance 2012* gov.sg/~/media/resource/fin_development/corporate_governance/CGCRevisedCodeofCorporateGovernance3May2012.pdf

National Audit Office (UK) *Charity Reporting and Accounting: The Essentials* gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d

National Audit Office (UK) *Reporting Financial Information to the Board* nao.org.uk/report/reporting-financial-information-to-the-board-2/

New Zealand Stock Exchange (NZX) *Corporate Governance Code* nzx.com/files/attachments/257864.pdf

New Zealand Stock Exchange (NZX) *Listing Rules* nzx.com/regulation/main-board-debt-market-rules

UK Financial Reporting Council *Guidance for Boards and Board Committees* frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance/UK-Corporate-Governance-Code/Guidance-for-boards-and-board-committees.aspx

UK Government Internal *Financial Controls for Charities* gov.uk/government/publications/internal-financial-controls-for-charities-cc8

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