General Ledger Governance Procedure

Section 1 - Purpose

(1) This Procedure supports the General Ledger Governance Policy by:

a. establishing requirements for the preparation, review and approval of Manual Journal entries – refer to Part A;
b. establishing requirements for the reconciliation of Balance Sheet accounts – refer to Part B;
c. establishing requirements for the creation and modification of Natural Accounts and the creation and modification to associated Natural Account Reporting Hierarchies – refer to Part C;
d. establishing requirements for the recording of inter-company financial transactions and for the elimination of these transactions for University Group reporting – refer to Part D;
e. defining concepts of financial materiality and their application to the compilation of external financial statements – refer Part to E; and
f. defining practical levels of accuracy required for individual financial transactions to enable the production of materially correct entity-level external financial statements and more granular financial statements for external funding providers e.g., research grant research acquittals – refer to Part E.

Scope

(2) This Procedure applies to all officers and directors, members, employees, consultants and contractors of Macquarie University and its Controlled Entities (collectively referred to as the University Group) and to all staff involved in the:

a. creation, processing, approval, and recording of Manual Journals. (Note: this Procedure excludes Automated/System Generated Journals, which are exclusively posted by the IT Finance team);
b. creation, processing, approval, and recording of Inter-Company Transactions; and
c. creation and modification of Natural Accounts, and the associated Management Reporting (MR) and Financial Accounting (FA) Reporting Hierarchies used to report results to internal and external stakeholders.

Section 2 - Policy

(3) Refer to the General Ledger Governance Policy.

Section 3 - Procedures

Contents

(4) This Procedure document has five parts:

a. Manual Journal Entry;
b. Balance Sheet Account Reconciliation;
c. Natural Account and Associated Reporting Hierarchy;

d. Inter-company; and
e. Materiality.

Accountability for adherence to Procedure

(5) The Director, Financial Operations, Tax and Treasury has overall accountability for ensuring adherence to this Procedure for all entities in the University Group.

Part A - Manual Journal Entry

(6) Manual Journals are used to adjust the financial results of an entity. Strong protocols around the use and quality of journals are a vital internal control which assists in ensuring accuracy and reliability of financial information.

Responsibilities and Required Actions

Journal Preparer Responsibilities

(7) The Journal Preparer is responsible for ensuring that the journals they create and upload:

a. are valid and necessary;
b. are compliant with this Procedure;
c. are complete;
d. are using the correct format for journal entry (e.g., Accrual or GST templates);
e. have the correct GST code;
f. are for the correct accounting period;
g. have the correct Chart of Account codes on each journal line;
h. have complete and self-explanatory Supporting Documentation (refer below for further guidance);
i. are submitted for approval in a timely manner and in accordance with the applicable timetables; and
j. comply with relevant clauses of the Accounting Policies Register.

Journal Approver Responsibilities

(8) The Journal Approver is accountable for ensuring the Journal Preparer has complied with the Procedure requirements listed above. The Journal Approver will only approve journals that comply with this Procedure.

Supporting Documentation

(9) All Manual Journal entries must have Supporting Documentation that substantiates the amount and purpose of the journal to a standard that enables the Approver or Reviewer to understand its purpose and validate its accuracy.

(10) All calculations must be clearly documented, with methodology and assumptions clearly defined. Information relied on from external sources (e.g., reports) must be documented in sufficient detail, including source and relevant parameters (e.g., dates and other filters) such that a report could be re-extracted or re-obtained, and any associated calculations could be reperformed.

(11) All Supporting Documentation must be uploaded into the General Ledger as an attachment to the Manual Journal.

(12) All recurring Manual Journals will be documented using a standard recurring Manual Journal Template. This Template will capture the purpose, requirements, key inputs, overview of calculations and expected frequency of the journal, and the location of any supporting material that details the step-by-step instructions for completion of the journal.

Timetable for Submission and Approval of Manual Journals

(13) All Manual Journals must be prepared and approved in accordance with deadlines communicated each month by the Financial Operations Team within Group Finance.

Use of Blackline as a repository and tracking tool for Manual Journals

(14) Each foreseeable Manual Journal will be listed as a separate task in Blackline, with the expected frequency, due date, Journal Preparer and Journal approver identified. Journal Preparers and Approvers will mark each journal task as complete as they progress through month-end activities in accordance with the published timetable.

(15) The relevant Manual Journal Template as well as the step-by-step instructions for completion of each Manual Journal will either be attached to the Blackline task, or the digital location of these documents will be included in the Blackline task.

Accrual Journals

(16) All Accrual journals must use a journal format which auto-reverses in the following period, such that the full Accrual balance needs to be approved each month.

Prior Period Adjustments – between financial years

(17) The Manual Journal adjustment of prior year externally audited financial results is not permitted without the written authorisation of the Vice-President, Finance and Resources.

Prior Period Journals (months within the same financial year)

(18) The Manual Journal adjustment of a prior month's results within the same financial year is not permitted without the written authorization of the Deputy Group Chief Financial Officer.

Part B - Balance Sheet Account Reconciliation

(19) High quality and timely Balance Sheet account reconciliations are a vital internal control which assists in ensuring accuracy and reliability of financial information.

Responsibilities and Required Actions

Frequency of Reconciliations

(20) The following Balance Sheet Account types must be reconciled monthly (classified as Key accounts in Blackline):

a. accounts with sub-ledgers or with interfaces to systems performing similar functions (including bank, fixed assets, debtors, creditors); and
b. account types other than those listed above with Closing Balances greater than $10m for the University, and 1% of full year expenditure for Controlled Entities.

(21) All other Balance Sheet accounts must be reconciled at least quarterly. The quarterly cycle need not follow the default calendar quarter cycles, to enable the spread of the review over the twelve (12) periods.

(22) All Balance Sheet accounts must be reconciled for the December reporting period. For accounts subject to auto-certification rules in Blackline, the reconciliation must be manually reconciled in the December reporting period by the Balance Sheet Reconciliation Preparer and Approver without application of the auto-certification rule.

Due Dates

(23) Timelines for completion of Balance Sheet Account Reconciliations for all University Group entities will be determined by the Director, Financial Operations, Tax and Treasury. These timelines must be formally communicated as part of month-end timetabling communications and configured in Blackline for all Balance Sheet Reconciliation Preparers, Approvers and Reviewers.

Content of Balance Sheet Account Reconciliations

(24) A Balance Sheet Account Reconciliation must include:

a. a statement of purpose for the account;
b. balance sheet account number and name;
c. the accounting period of the reconciliation;
d. General Ledger balance as at close of the accounting period;
e. Supporting Documentation (see further information under the Supporting Documentation heading) to substantiate the entire Closing Balance (not just movement in the period);
f. the account balance, which must be reported in the pre-defined fields in Blackline categorised by List Component, Timing Item and Required Adjustment (see Definitions Section);
g. a list of all Reconciling Items, with Supporting Documentation;
h. a list of Unreconciled Items, with explanatory notes and documented action plan for investigation, including the specific task(s) required to be completed, the resources required, and the timeframe for resolution;
i. electronic links (or location details) to any separate templated procedures relevant to the Balance Sheet Account Reconciliation;
j. the Balance Sheet Reconciliation Preparer's and Approver's names, and dates of preparation and approval;
k. if a zero balance, confirmation that the account is appropriate to be zero; and
l. confirmation that the Closing Balance has been calculated in accordance with the relevant identified sections of the Accounting Policies Register.

Supporting Documentation

(25) All Balance Sheet Account Reconciliations must include Supporting Documentation that explains the account, substantiates the Closing Balance and enables the Balance Sheet Reconciliation Approver to understand its purpose and validate its accuracy.

(26) Examples of Supporting Documentation include, but are not limited to:

a. bank or third-party statements;
b. reports from subledgers or other internal systems; and
c. calculation worksheets.

(27) For sensitive and confidential information, relevant Balance Sheet Reconciliation Approvers will document and implement protocols around document storage and retention in compliance with the Records and Information Management Policy.

Segregation of Duties

(28) Segregation of duties between Balance Sheet reconciliation Preparer and Balance Sheet reconciliation Approver is mandatory.

Responsibilities for Balance Sheet Reconciliations

Balance Sheet Reconciliation Preparer

(29) The Balance Sheet Reconciliation Preparer must ensure their allocated Balance Sheet Account Reconciliations are completed in accordance with the communicated timelines and include all content required by this Procedure.

Balance Sheet Reconciliation Approver

(30) The Balance Sheet Reconciliation Approver is accountable for reviewing the reconciliations, including performing an assessment on the accuracy, completeness, and validity of the reconciliations according to the requirements of this Procedure.

(31) Reconciliations that do not meet the standards of this Procedure must not be approved. The Balance Sheet Reconciliation Approver will advise the Balance Sheet Reconciliation Preparer of remedies required to revise the reconciliation for compliance with this Procedure.

(32) The Balance Sheet Reconciliation Approver will oversee the action plan for the resolution of any identified Unreconciled Items.

Balance Sheet Reconciliation Reviewer

(33) A second quality review of the completed Balance Sheet Reconciliations will be performed by the Balance Sheet Reconciliation Reviewer. This review provides an additional level of scrutiny and evaluation to maintain the integrity of the reconciliation process. The selection of accounts for review and the frequency of these reviews will be determined at the discretion of the Director, Financial Operations, Tax and Treasury.

System for Storing Reconciliations

(34) All entities will use Blackline (where this service is activated) to prepare and approve all Balance Sheet Account Reconciliations. Supporting Documentation must be attached to the reconciliation within Blackline. For entities where Blackline is not activated, the Manager, Controlled Entities will manage an alternate digital storage solution, as approved by the Director, Financial Operations, Tax and Treasury.

Pre-set Expectations of Balances and Auto-certification against these Expectations

(35) Certain Balance Sheet Account Reconciliations have expected balances that can be predicted in advance due to their inherent nature. Blackline includes a feature to load expected balances and auto-certify accounts which are within a $10 tolerance of this balance.

(36) A variety of other auto-certification and account grouping features exist within Blackline. Initial use of these features for each account requires approval by the Director, Financial Operations, Tax and Treasury for each impacted Balance Sheet Account. Approvers for impacted accounts are then required to attest to the Director, Financial Operations, Tax and Treasury, annually, that the auto-certification rules applied to their account, including any preloaded expected balances, are still appropriate for the underlying nature of the account.

Tolerance Thresholds for Unreconciled Items

(37) Unreconciled Items are any component of an account balance that is incorrect, unexplained, has been confirmed as an error or requires further investigation.

(38) The tolerance thresholds for temporary Unreconciled Items are set at $50,000 per Balance Sheet Account Reconciliation for the University, and 0.1% of full year expenditure for Controlled Entities. Unreconciled Items within this tolerance limit do not require a formal action plan for investigation unless they persist for more than three months.

Timeframe for Resolution of Unreconciled Items

(39) Unreconciled Items with a value above the tolerance thresholds noted above require an action plan for investigation and resolution, in accordance with the following timeframes:

University $ value of unreconciled item	Controlled Entities value of unreconciled item as % of full year budgeted expenditure	Time frame for resolution from initial identification of Unreconciled Item
$0 - $50,000	0 – 0.1%	Three months
$51,000 - $100,000	0.1 – 0.5%	Two months
> $100,000	> 0.5%	One month
> $500,000	> 1%	Two weeks plus immediate notification by Approver to Director, Financial Operations, Tax and Treasury
> $1,000,000	> 2%	Two weeks plus immediate notification by Approver to Director, Financial Operations, Tax and Treasury and Deputy Group Chief Financial Officer

Reporting

(40) The following information will be reported monthly by the Director, Financial Operations, Tax and Treasury to the Deputy Group Chief Financial Officer:

a. confirmation of completion status of reconciliations against the requirements of the published timetable, with an explanation and action plan for any reconciliations that are late; and
b. listing of all Unreconciled Items across all Balance Sheet Account Reconciliations with the action plans that each relevant Balance Sheet Approver has endorsed for resolution.

Part C - Natural Account and Associated Reporting Hierarchy

(41) Natural Accounts are used in the General Ledger to group transactions by nature (e.g., wages, income, debtors). These Natural Accounts are then further grouped by hierarchies for internal and external reporting. Appropriate controls around the creation and modification to Natural Accounts and their hierarchies is essential to ensure that financial information is reported accurately and consistently for internal and external stakeholders.

(42) Within the University, two Natural Account hierarchies exist:

a. Management Reporting (MR) Hierarchy – grouping of Natural Accounts according to management preference, to best review the financial drivers of the organization; and
b. Financial Accounting (FA) Hierarchy – grouping of Natural Accounts to support external reporting in compliance with the requirements of the Department of Education.

(43) Within the Controlled Entities, other hierarchies exist to cater for internal and external reporting.

Responsibilities and Required Actions

Types of Permitted Changes

(44) Requests for new Natural Accounts, modifications to existing Natural Accounts, as well as alterations to the description, purpose or MR and FA Reporting Hierarchies of Natural Accounts, must be made using the Natural Account and Reporting Hierarchy Request Form.

(45) Requests must be submitted for review to the Financial Operations Team.

Requests for New Natural Accounts

(46) Requests for New Natural Accounts must include:

a. a description and the operational purpose of the proposed Natural Account;
b. specification why an existing Natural Account cannot be used e.g. is the new Natural Account required to meet external reporting requirements, adhere to the Accounting Policies Register, or adhere to Part D - Inter-company;
c. the expected dollar value to be processed through this account per annum (as a gauge for materiality). New Natural Accounts with an immaterial expected usage levels will generally not be approved unless they are required for a reason stated in point b above;
d. if the Natural Account is classified as an income account – submission of information for assessment of revenue recognition as required in the Revenue Recognition procedure;
e. details of how transactions will be posted to the Natural Account e.g., System Interface or Manual Journal. If Manual Journals will be used, submission of a Manual Journal Template to detail underlying procedure that will trigger the journals;
f. assessment of whether the new Natural Account request will impact any of the following financial processes in Finance One:
    i. Non-teaching revenue deferral;
    ii. Interest allocation; and
    iii. Indirect Costs.
g. the proposed MR and FA Hierarchy codes to which the Natural Account will map, and an assessment of whether these mappings will trigger a new Reconciling Item in the MR vs FA Hierarchy Reconciliation; and
h. all other mandatory meta-data as detailed in the Natural Account and Reporting Hierarchy Request Form.

Requests for changes to existing Natural Accounts

(47) Requests for changes to existing Natural Accounts must specify the nature of the requested change, for example:

a. name change to provide a more meaningful description, with no change to underlying business process; or
b. name change and business purpose change – all information noted above for new Natural Accounts must be provided.

Requests for changes to the MR or FA Hierarchical mapping of existing Natural Accounts

(48) Requests for changes to the MR or FA Hierarchical mapping of existing Natural Accounts must specify:

a. the rationale for why the change of mapping is required; and
b. whether the Natural Account was used in the previous reporting year. As there is only one live hierarchy, a re-mapping of such accounts will by default change prior year groupings of Natural Accounts. This may require a Accurri prior year journal to be posted to manually force externally reported results to match audited financial statements.

Requests for changes to the narrative description of MR or FA Hierarchical mapping code, with no change to the mapping of the underlying Natural Accounts to existing Hierarchies

(49) Requests for changes to the narrative description of MR or FA Hierarchical mapping code, with no change to the mapping of the underlying Natural Accounts of existing Natural Accounts must specify the rationale for why the change of mapping is required.

Approvals Process and Evidence of Approvals

(50) Approvals for changes are determined by the level of impact of the change, as detailed in clause 54.

(51) A nominated representative within the Financial Operations Team will receive and review all Change Requests and will ensure all necessary finance leadership approvals (as detailed in clause 54) are secured before engaging with the teams responsible for updating the relevant finance systems. Changes will not be made in any system until all necessary approvals are obtained.

(52) Once the changes are approved, updates to relevant systems will be processed by the following teams, using standard ticketing processes as relevant for each system:

System to be updated	Person responsible for overseeing update of relevant system
General Ledger, Calumo, Blackline, Purchase-to-Pay	Manager, Finance IT
Accurri	Manager, Financial Control

(53) All documentation associated with the Change Request, including all relevant required information specified in this Procedure, plus evidence of required approvals, will be retained on file, noting:

a. changes to Natural Accounts will be attached within Finance One as part of the Metadata of the Natural Account; and
b. changes to MR and FA Hierarchies will be retained by the Manager, Finance IT and tracked in a change log.

Approvals for Changes to Natural Accounts or Associated Reporting Hierarchies – for all entities in the University Group

(54) Use the table below to identify all impacts of the proposed change, and seek approval from all relevant approvers:

<table>
<tr><th rowspan="2">Impact of change</th><th colspan="4">Approval required from:</th></tr>
<tr><th>Director, Financial Operations, Tax and Treasury, or nominee</th><th>Director, Group Financial Control, or nominee</th><th>Head of Group Financial Planning and Analysis</th><th>Other approver</th></tr>
<tr><td colspan="5">Additions/changes to name and/or purpose of Natural Account</td></tr>
<tr><td>Change to Natural Account name only</td><td>Yes</td><td>No</td><td>No</td><td rowspan="3">Approval by manager who owns either the system interface or the Manual Journal procedure that impacts this account</td></tr>
<tr><td>Change to Natural Account name and business purpose</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>New Natural Account</td><td>Yes</td><td>No</td><td>No</td></tr>
<tr><td colspan="5">Impact on MR Hierarchy Mapping – management reporting</td></tr>
<tr><td>Change to mapping in MR Hierarchy – at level 1 - 4 of Hierarchy*</td><td>Yes</td><td>No</td><td>Yes</td><td>n/a</td></tr>
<tr><td>Change to mapping in MR Hierarchy – at level 5 or 6 of Hierarchy**</td><td>Yes</td><td>No</td><td>Yes</td><td>n/a</td></tr>
<tr><td>Impact on MR vs FA Hierarchy reconciliation template</td><td>Yes</td><td>No</td><td>Yes</td><td>n/a</td></tr>
</table>

Impact of change	Approval required from:			
	Director, Financial Operations, Tax and Treasury, or nominee	**Director, Group Financial Control, or nominee**	**Head of Group Financial Planning and Analysis**	**Other approver**
Changes to FA Hierarchy Mapping and Accurri mapping – external reporting				
Change to mapping in FA Hierarchy – at level that impacts the face of a Primary Statement or a row within a Note to a Primary Statement in Accurri	Yes	Yes	No	n/a
Prior year Accurri impact	Yes	Yes	No	n/a
Changes to general accounting month-end scripts and processes				
Impact on teaching revenue deferral	Yes	No	No	Revenue Manager, Financial Operations
Impact on non- teaching revenue deferral script	Yes	No	No	Revenue Manager, Financial Operations
Impact on indirect costs script	Yes	No	No	Manager, Expenditure Operations Opex/Capex, Financial Operations
Impact on interest allocation script	Yes	No	No	Revenue Manager, Financial Operations

*This is the level that will impact the Calumo report Profit & Loss Account and Balance Sheet Report at a Compact roll-up level. **This is the level that will impact the Calumo report Profit & Loss Account and Balance Sheet Report at a Detailed report level.

Part D - Inter-company

(55) Provision of goods, services and other transactions are routinely made between entities within the University Group. These transactions must be identified and eliminated upon consolidation of the University Group financial statements, such that the University Group financial results only reflect transactions with third parties to the University Group.

(56) Efficient and accurate identification of Inter-Company Transactions is critical to ensure the accurate elimination of these transactions to enable accurate University Group reporting.

Responsibilities and Required Actions

Recording of Inter-Company Transactions - Permitted Natural Accounts

(57) All Inter-Company Transactions must be recorded using designated inter-company Natural Account codes, which are used exclusively for this purpose.

(58) All Intercompany Natural Accounts will be clearly designated as such in their description and can only be used for these purposes.

Classification of Inter-Company Transactions

(59) All Inter-Company Transactions must be classified as either an ‘Inter-company Recharge’ or a ‘Pass-Through’ and

the relevant accounting should be followed accordingly.

Intercompany Recharge (for provision of Goods or Services)

(60) Transactions where there has been a provision of Goods or Services between two entities within the University Group.

(61) In these instances, both sides of these transactions need to be recorded in separate Revenue and Expense (P&L – Inter-company) Natural Accounts, in the respective entities. Eg: MQSL provides catering/conferencing services to the University

Pass-Through (Payment to a third party on behalf of another entity within the University Group)

(62) Transactions where one entity has paid for Goods or Services on behalf of another and wants to pass-through the cost of this to the other entity.

(63) The initial paying entity should record the transaction in the Receivable (BS-Inter-company) Natural Account and raise an invoice.

(64) If the item has already been posted to the P&L, it should be reversed and recorded in the Receivable (BS-Inter-company) Natural Account.

(65) The receiving entity should book a Payable (BS-Inter-company) Natural Account an a NON Inter-company expense account.Eg: University pays a supplier on behalf of MQ Health and is then reimbursed by MQ Health via the inter-company.

Recording of Inter-Company Transactions – Invoices

(66) Where feasible, Inter-Company Transactions will be raised via standard Accounts Receivables invoicing procedures and settled via standard Accounts Payable processes, for ease of identification.

(67) Cut-offs for the raising of inter-company invoices will be communicated by the Financial Operations department as part of month-end timetable communications and must be adhered to by all entities.

Recording of Inter-Company Transactions – Accruals

(68) Inter-Company Transactions that miss the cut-off for invoicing in a particular period may be accrued via Manual Journal, in accordance with Part A - Manual Journal Entry. Evidence of acceptance of the value of the Accrual by the counterparty must be included by the Journal Preparer as part of the Supporting Documentation for the journal.

(69) Cut-offs for the inter-company Accruals for all entities in the University Group will be communicated by the Financial Operations department as part of the month-end timetable communications.

Elimination of Inter-Company Transactions for University Group Reporting

(70) The Financial Operations Team will ensure that closed Trial Balances, each month, for each entity within the University Group, contain complete and reciprocal Inter-Company Transactions.

(71) The Financial Operations Team will oversee the identification and elimination of Inter-Company Transactions to aid the production of University Group financial reports that exclusively reflect third party transactions.

Dispute Resolution of Inter-Company Transactions

(72) Disputed Inter-Company Transactions will be escalated by the Financial Operations Team member(s) assigned to oversee Inter-Company Transactions to the Director, Financial Operations, Tax and Treasury with an action plan for

resolution, in accordance with the following timeframes:

$ value of disputed item	Timeframe for resolution from initial identification of disputed item
$0 - $10,000	Three months
$11,000 - $50,000	Two months
> $50,000	One month

Part E - Financial Materiality Guideline

Concepts of Materiality

Financial Statements Materiality

(73) The financial statements provide financial information about the University Group that is useful to a wide range of external stakeholders (i.e., existing and potential lenders, rating agencies, Government agencies and donors) in making decisions about providing resources to the University Group.

(74) Information in these financial statements is deemed to be material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of the financial reports make based on those reports.*

(75) Materiality may depend on the nature or the magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of the financial statements taken as a whole.*

> *AASB 101 Presentation of Financial Statements

Quantitative Factors - Materiality Thresholds

(76) Auditing standards provide a range of materiality guidance to enable the auditor to carry out their audit procedures and obtain reasonable assurance about whether the financial statements are free from material misstatement, specifically:

(77) Financial Statement Materiality represents the maximum cumulative numerical misstatements in an account balance, class of transactions or other disclosure that the auditor would regard as not influencing the decisions of those financial statements.

(78) Benchmarks are used to set materiality and a percentage range is applied based on the nature of the entity and the requirements of the users of the financial statements.

(79) Not-for-profit entities typically reference materiality against gross benchmarks (e.g., total assets, revenue or expenses) rather than profitability benchmarks (e.g., profit, net assets).**

> **AASB Practice Statement 2 Making Materiality Judgements

(80) Due to the judgement required for financial statement materiality, a percentage range is not defined in accounting or auditing standards.

Qualitative factors in assessing materiality

(81) A misstatement that is qualitative in nature may still be material if it affects the judgement of a user of the financial statements. Such a qualitative misstatement may include missing or misstated information or notes to the financial statements. Examples include misstatements affecting:

a. compliance with regulatory or legislative requirements;
b. compliance with debt covenants or other contractual requirements;
c. incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements;
d. ratios used to evaluate the entity's financial position, results of operations or cash flows;
e. items involving particular parties (for example, whether external parties to the transaction are related to members of the entity's Key Management Personnel, per the Key Management Personnel (KMP) Reporting Procedure); and
f. other information that will be communicated in documents containing the audited financial statements.

Materiality and the external audit process

(82) All financial statements of all entities within the University Group are audited by the Audit Office of NSW (AONSW).

(83) The Audit Office of NSW (AONSW) model materiality for the University sector at 2-3% of expenses. Both quantitative and qualitative characteristics are considered when determining materiality of information. Whilst a financial threshold for materiality can serve as a useful guide, materiality ultimately remains a matter of professional judgement when applied to specific items.

(84) AONSW communicates to the University’s Audit and Risk Committee and to each Controlled Entity Board any uncorrected misstatements identified during the external annual audit and the effect that these misstatements, individually or in aggregate may have on the financial statements.

(85) Misstatements may result from either error or judgement such as:

a. an inaccuracy in gathering or processing data from which the financial report is prepared;
b. an omission of an amount or disclosure;
c. an incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
d. judgements of management concerning accounting estimates or the selection and application of accounting policies.

(86) Auditors typically apply a range of 5-10% of their official materiality limit and also consider qualitative considerations when determining individual misstatements to be communicated to the Audit and Risk Committee.

(87) The Audit and Risk Committee is then able to consider if the uncorrected misstatements identified would, either individually or in aggregate, cause a material error in the financial statements.

(88) The Audit and Risk Committee generally adopts a lower internal materiality range of 1.5%-2% of expenses for use as a guide when assessing the University Group financial statements and when reviewing any errors identified during the annual external audit and reported to the Audit and Risk Committee by the AONSW.

Materiality for completeness of entity level financial statements

(89) Further to the concepts detailed above, in order to produce materially accurate and complete financial statements, materiality thresholds for correcting individual transactions that may have been either incorrectly

calculated or omitted during routine month-end scripts/processes are set-out below.* These thresholds assume that all routine month-end scripts/processes are operational and effective. Thresholds may be temporarily reduced by the Financial Operations Director if any of these routine month-end processes become temporarily ineffective.

	Threshold per omitted/incorrectly calculated transaction/invoice	When threshold applies
General Ledger major accounts with no external reporting requirements by major account	0.0025% of annual expenses for the entity e.g., $25,000 for the University	Every month-end
General Ledger major accounts with external reporting requirements by major account [e.g., research funding acquittal]	1% of annual income for the relevant major account	Minimum: month-end before the next external reporting period

*Including for the University: accurate assignment of prepayment criteria when raising Purchase Requisitions; timely and accurate receipting of invoices in P2P to enable accurate P2P Accruals and prepayments; cash allocation and receipting; effective execution of scripts for deferred revenue, infrastructure costs, payroll interface, payroll Accruals and depreciation; plus routine major revenue and expenditure Accruals. Including for Controlled Entities: Timely and accurate journals to transfer financial data from various source systems into the relevant General Ledger (including for all key revenue streams, cost-of-goods-sold, debtors, deferred revenue, cash allocation, receipting and creditors) plus routine major revenue and expenditure Accruals.

Materiality for re-allocation of transactions within an entity – for management reporting

(90) On occasion financial transactions may be posted into the General Ledger using incorrect chart parameters (incorrect Natural Accounts, Major account).

(91) Materiality thresholds for correcting individual transactions with these types of chart geographical errors are as follows:

	Threshold per incorrect location of transaction/invoice	When threshold applies
General Ledger major accounts with no external reporting requirements by major account	0.0025% of annual expenses for the entity e.g., $25,000 for the University	Every month-end
General Ledger major accounts with external reporting requirements by major account [e.g.,research funding acquittal]	0.5% of annual income for the relevant major account	Minimum: month-end before the next external reporting period

Summary – Financial materiality thresholds

(92) The above financial materiality thresholds discussed in this chapter are summarised as follows:

	Party	Topic	Threshold as a % of total entity annual expenses	Example $ threshold for University entity

	AONSW	Guide for assessing material error to entity level financial statements in the University sector	Modelled at 2-3% of expenses	$20-$30m
	AONSW	Guide for any identified error individually large enough for reporting to Audit & Risk Committee	Typically, 5-10% of 0.1-0.15% of the AONSW overall materiality threshold noted above i.e. (93) 0.1% - 0.15% of expenses	$1m - $1.5m
Materiality for completeness of entity level financial statements	Audit and Risk Committee	Guide for assessing material error to financial statements	Typically 1.5% - 2% of expenses	$15m - $20m
	Finance team	Threshold for Manual Journal correction of missing transaction – refer Part B of this paper - [assuming no external reporting needs by major account]	0.0025% of expenses	$25k
	Finance team	Threshold for Manual Journal correction of missing transaction – refer Part B of this paper [where external reporting is required by major account to a funder provider]	0.5% of annual income for the relevant major account. Accuracy frequency: as a minimum, the month-end before the next external reporting period.	n/a
Materiality for re-allocation of transactions within an entity – for management reporting needs	Finance team	Threshold for Manual Journal correction of incorrect General Ledger location of transaction – refer Part C of this paper - [assuming no external reporting needs by major account]	0.0025% of expenses	$25k
	Finance team	Threshold for Manual Journal correction of incorrect General Ledger location of transaction – refer Part C of this paper [where external reporting is required by major account to a funder provider]	0.5% of annual income for the relevant major account. Accuracy frequency: as a minimum, the month-end before the next external reporting period.	n/a

Risk Matrix as applied to concepts of financial materiality

(94) Note that the table below is a guide, due to the qualitative assessments of materiality that will be made dependent on the nature of the error, as detailed in this Part.

Potential impacts of a financial error in the entity-level full-year draft Financial Statements, as presented by management for audit					
Type of consequence	Consequence Rating				
	Minimal	Minor	Moderate	Major	Severe

Potential impacts of a financial error in the entity-level full-year draft Financial Statements, as presented by management for audit					
Impact on entity level full-year reported results in audited Financial Statements.	< 0.1% of full year entity-level expenses For Uni: $<1m	0.1% - 1.5% of full-year entity expenses For Uni: $1-15m	1.5% - 2% of full-year entity expenses For Uni: $15-20m	2-3% of full year entity expenses For Uni: $20-30m	>3% of full year entity expenses For Uni: $>30m
AONSW – external auditors Likelihood of receiving qualified ['non-clean'] audit opinion if corrections not made to financial statements	very unlikely	unlikely	possible	likely	Very likely / certain. Concerns about the entity may be raised to the Auditor General
Impact for Audit and Risk Committee (ARC) and Council	No errors reported by AONSW at ARC.	Several (individually non-material) errors reported by AONSW at ARC. ARC may require non-material amendments to financial statements before recommendation to Council.	ARC may require significant amendments to financial statements before recommendation to Council.	ARC likely to require significant amendments to financial statements before recommendation to Council.	ARC very likely/certain to require significant amendments to financial statements before recommendation to Council.
Impact for control environment	n/a	Management assessment of any necessary control remediation.	Internal Audit into area of concern possible. Changes to processes and controls likely.	Internal Audit into area of concern likely. Major changes to processes and controls likely.	Internal Audit into area of concern almost certain. Major changes to processes and structures and controls likely.

Section 4 - Guidelines

(95) Nil.

Section 5 - Definitions

(96) The following definitions apply for the purpose of this Procedure:

a. Accrual: a type of Manual Journal whose impact on the financial statements automatically reverses in the next reporting period. See also definitions for Deferred Revenue Accrual Journal and Expense Accrual Journal.
b. Automated/System Generated Journal: a journal entry that is generated and submitted to the General Ledger through an interface with a subsidiary ledger or other system, without the ability for the data to be manually adjusted.
c. Balance Sheet Account Reconciliation: the substantiation of a Balance Sheet account at a point in time, involving providing evidence that the composition of a balance or a group of related account balances are accurate and complete, and identifying any Unreconciled Items that require remediation.

d. Balance Sheet Account: the Natural Accounts in a General Ledger used to record the financial transactions involving the entity's assets, liabilities and equity.
e. Balance Sheet Reconciliation Approver: the individual who has assigned responsibility to approve the Balance Sheet Reconciliation.
f. Balance Sheet Reconciliation Preparer: the individual who has assigned responsibility to prepare the Balance Sheet Reconciliation.
g. Balance Sheet Reconciliation Reviewer: a member of senior finance management (usually the Director of a department preparing reconciliations), who will periodically perform a risk-based additional layer of quality review of a Balance Sheet Account Reconciliation that has already been approved by the Balance Sheet Reconciliation Approver.
h. Blackline: cloud-based software used by the University to complete Balance Sheet Reconciliations and to track and report completion of finance tasks and map risks to control activities.
i. Calumo: BI financial reporting tool, which groups Trial Balance information into both the Management Reporting (MR) and Financial Accounting (FA) Hierarchies.
j. Accurri: software used to produce external statutory accounts. Natural Accounts in Accurri are grouped in compliance with the requirements of the Department of Education, Skills and Employment and local entity statutory reporting requirements. This grouping is replicated in Calumo as the Financial Accounting (FA) Hierarchy.
k. Accurri prior year journal: manual adjustment made within Accurri to manually adjust the mapping for prior year statements back to the mapping in use when the statements were approved.
l. Chart of Accounts: the list of account codes used to enter data in the General Ledger. Includes both General Accounts (used to code activities by nature e.g., wages, income, debtors; referred to as Natural Accounts within the University) and Profit Centres (used to group activities by area of the organization; referred to as Discipline and Major Accounts within the University).
m. Closing Balance: the amount remaining in a Balance Sheet Account at the end of a reporting period.
n. Controlled Entity: a person, group of persons or body over which the University has control. Refer to the Controlled Entities Policy for expanded definitions and other attributes of Controlled Entities.
o. Deferred Revenue Accrual Journal: a type of reversing Manual Journal which functions to defer the revenue from a revenue transaction over the period in which the contractual components of the revenue contract are delivered. Refer to the Accounting Policies Register for accounting advice on this topic.
p. Expense Accrual journal: a type of reversing Manual Journal which functions to record the liability for a good/service that has been delivered but for which the invoice has not yet been recorded in the Accounts Payable sub-ledger of the General Ledger system.
q. Financial Accounting (FA) Hierarchy: hierarchical grouping of Natural Accounts retained in Calumo, that replicates the hierarchy stored in Accurri.
r. Financial Operations Team: the team within Group Finance, led by the Director, Financial Operations, Tax and Treasury.
s. General Ledger: the system that contains all the financial transactions of an entity.
t. Inter-Company Transaction: a transaction between two entities within the University Group.
u. Journal Approver: the individual who approves and posts the Manual Journal Entry into the General Ledger.
v. Journal Preparer: the individual who creates and uploads the Manual Journal Entry into the General Ledger, for approval and posting by the Journal Approver.
w. Journal Reviewer: a suitably qualified staff member who is assigned to perform a rotational quality review of a Manual Journal and its associated Manual Journal procedure.
x. List Component: Item class settings in Blackline and is defined as any component of an account balance that is fully substantiated by supporting document.
y. Manual Journal: a manual entry to record financial transactions in the General Ledger. Principles of double entry

accounting require the journal to include debit and credit entries whose sum will be equal and opposite

z. Manual Journal Template: the standard template used to record a financial procedure that results in the creation of a Manual Journal.

aa. Metadata: the contextual information about a piece of data or a data set that is stored alongside the data.

ab. Management Reporting (MR) Hierarchy: hierarchical grouping of Natural Accounts according to management preference, to best review the financial drivers of the organization.

ac. Natural Account and Reporting Hierarchy Request Form: the official form, maintained by the Financial Operations Team, used to submit all requests for changes to Natural Accounts or their associated Hierarchies.

ad. Natural Account: the account codes in a General Ledger system used to code activities by nature e.g., wages, income, debtors, provisions.

ae. Prepayment journal: invoice payments that are made in one reporting period for goods or services that are delivered over several future reporting periods.

af. Prior Period Journals: Manual Journals prepared in a current month to adjust a previous period’s results due to a material error or omission.

ag. Reconciling Item: a transaction(s) or item(s) that represents a difference between the General Ledger balance and the subsidiary ledger or other supporting schedule(s) balance.

ah. Required Adjustment: Item class settings in Blackline and is defined as any component of an account balance that is different to the supporting document. The nature of the variance is unexplained and requires further investigation.

ai. Supporting Documentation: source documents, supportive calculations, and / or other items necessary to substantiate the accuracy and appropriateness of a journal entry. Typical supporting documents include, but are not limited to, General Ledger reports, worksheets with supportive calculations, copies of source documents such as purchase orders, travel expense reports and third-party reports / statements.

aj. Timing Item: Item class settings in Blackline and is defined as any component of an account balance that is different from supporting document. The nature of the variance is clearly documented and actions required are approved by the Balance Sheet Reconciliation Approver.

ak. Trial Balance: a list of all the General Ledger accounts contained in the ledger of the entity. This list will contain the name of each account and the value of that account balance. Each account will hold either a debit balance or a credit balance.

al. Unreconciled Items: any component of an account balance that is incorrect, unexplained, has been confirmed as an error or requires further investigation.

Status and Details

Status	Current
Effective Date	17th October 2024
Review Date	17th October 2027
Approval Authority	Vice-President, Finance and Resources
Approval Date	14th October 2024
Expiry Date	Not Applicable
Responsible Executive	Robin Payne Vice-President, Finance and Resources
Responsible Officer	Ben Gray Deputy Group Chief Financial Officer
Enquiries Contact	Andrew Syros Director, Financial Operations, Tax and Treasury andrew.syros@mq.edu.au