



# *NSW Office of Sport*

## Financial Reporting

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# Opening Comments

## Context

- The importance of accurate, relevant and timely financial information cannot be underestimated.
- It is critical to your business for a number of important responsibilities, including responding to stakeholder expectations, reviewing performance, decision making, planning, and forecasting.
- The type of financial reports required is determined by the type of legal entity that your organisation operates under, the size of the organisation and the specific requirements of the organisation.
- Financial reports provide you with the information needed to establish your business strategy, make management decisions, and understand the challenges your business is facing and/or the opportunities available to it.



***What's in a name?***

# Understanding the terminology

*Various terms are frequently used when discussing financial reporting*

- **Annual report**
- **Financial report**
- **Financial statements**

## **Annual report**

Annual reports are comprehensive documents that provide users with information about a company's financial and operating performance for the year. The reports contain information, such as performance highlights, operating results (e.g. competitions), a letter from the CEO or Chair of the Board, financial information, and objectives and goals for future years.

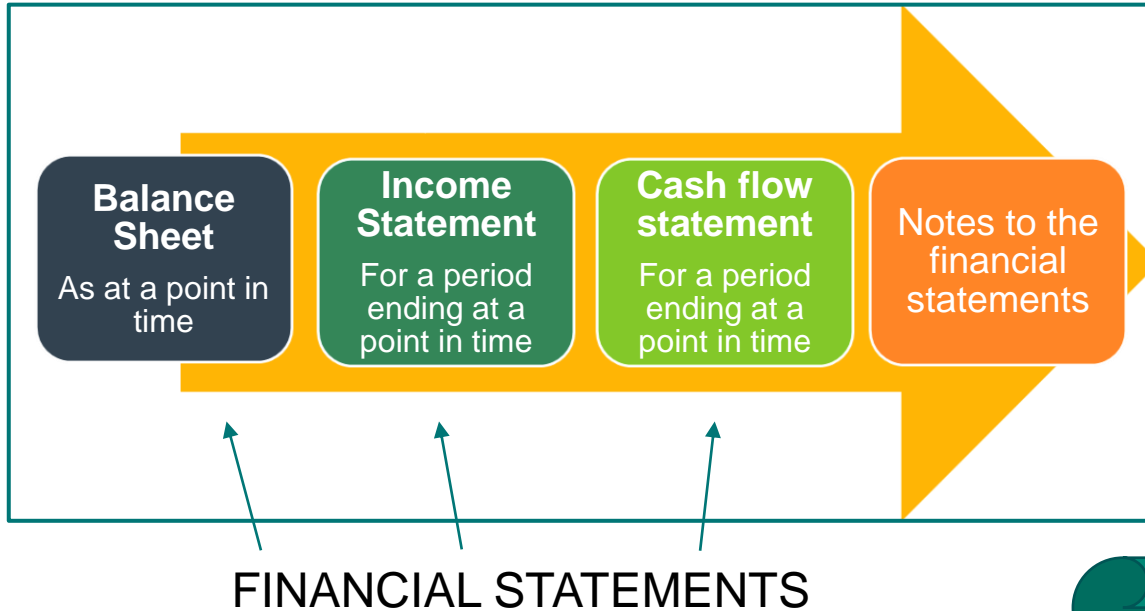
## **Financial report**

Financial reports are a set of financial statements that combined provide a detailed report on the financial performance and financial position of an organisation and form part of the annual report.

## **Financial statements**

The individual reports disclosing the organisation's financial activities for a period and financial position at a point in time. The main statements are the balance sheet, income statement, cash flow statement and statement of changes in equity.

## FINANCIAL REPORT



### Best Sport Ever Inc Annual Report 2022

1. CEO's report
2. Directors' report
3. **Financial report**
4. Results of competitions
5. Looking ahead
6. Other great news!



The financial reporting formula



Timely + **R**elevant + **A**ccurate + **C**omplete =  
Quality **F**inancial **R**eporting

***TRAC = QFR***

# *The importance of quality financial reporting*

## *Connecting the dots*

- The primary purpose of financial reporting is to communicate **relevant** and **reliable** information about the organisation to users and stakeholders.
- It is also the method used by organisation boards and management to discharge their **accountability** to stakeholders by providing an explanation of how they have managed the organisation's resources.
- Some of the benefits of quality financial reporting include:
  - Demonstrates good financial governance
  - Helps to manage risk
  - Provides an accurate assessment of the financial strength of the organisation
  - Allows directors and management to determine the resources available to them to plan for the future
  - Assist with development of strategic plans and budgets
  - Builds trust amongst the various groups with an interest in the organisation; creditors, financiers, employees, participants, etc.



## **Quality financial reporting - an aid for directors**

### ***How quality financial reporting assists directors:***

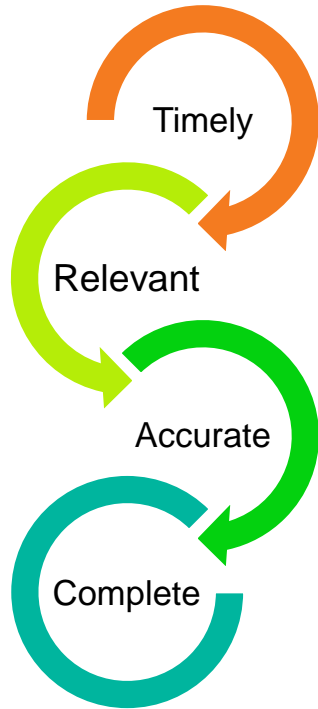
- Balance sheet –details all assets and liabilities and the ratios between them
- Income statement – discloses annual costs of running the organisation
- Impact of budget can be assessed through management accounts
- Financial statements and regular management accounts
- Cash flows/ Income statement – can be compared to operating budgets
- Financial risks can be identified through financial reports

### ***Financial responsibilities of directors:***

- Determine what financial resources are available
- Cost the strategic objectives of the organisation
- Adopt a budget aligned with achieving the organisation's goals
- Direct the organisation's finances
- Monitor progress against strategic plans and budgets
- Be aware of any significant financial issues

# Ways to ensure quality financial reporting

## Some thoughts to get you started



*Prioritisation:* Make financial reporting a priority and ensure that time and resources are available. Set deadlines for completion of business critical documents and make sure everyone is aware of their role.

*Timeliness* is critical to well informed decision making. Financial reports need to be prepared within a time frame to comply with any regulatory obligations, but more importantly, to enable directors and management to use the information for planning.

*Understand your business model,* the key drivers, and required outcomes. Focus on what is relevant to *your* organisation and make sure the information is prepared in time for it to be used as required.

*Review* your chart of accounts and delete any unnecessary clutter that can build up in your ledger. Make sure that the chart of accounts is set up to capture the information that is important to your organisation, not just the standard chart that comes with the software.

# Ways to ensure quality financial reporting

## Some thoughts to get you started

- *Seek and obtain expert advice when needed.* Engaging with your industry organisation, accountant or business advisor can help maximise the effectiveness of your financial reporting and the identification of any business risks or opportunities.
- *Make technology your friend:* Ensure you have the best systems and processes your budget will afford, and keep it updated. Wherever possible, utilise standard reports to reduce the need for continual updates.
- *Establish due dates in advance:* Prepare a calendar of events that identifies all tasks that need to be performed on a daily, weekly, monthly and annual basis. This allows you to plan for all stages in the transaction and reporting process, from processing transactions, reconciliations, report preparation, deliberation by the Board and ultimately lodging with regulatory authorities (if required).

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Timely

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Relevant

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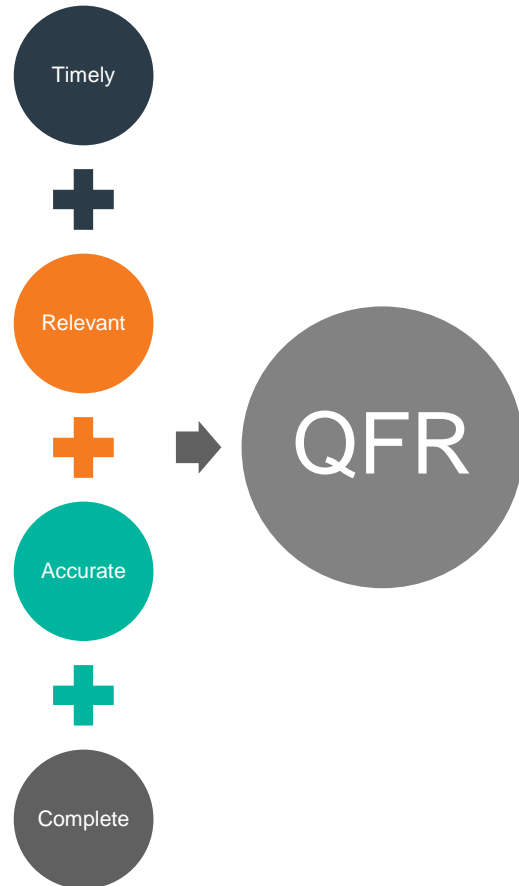
Accurate

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Complete

# Ways to ensure quality financial reporting

## Some thoughts to get you started



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*Embrace flexibility* and be prepared for the unexpected. In today's hybrid working model, it is important to have the flexibility to cope with different situations and be able to adapt regular workflows as required to meet important deadlines.

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*Training your people* on how to perform their roles is important, particularly for tasks that are not required on a regular basis. Make sure that all relevant manuals and policies are kept up-to-date.

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*Engage early with your Board to understand their expectations.* The financial report should reflect the board's knowledge of the organisation. Will the financial report reflect the key decisions made by the board and key transactions during the year?

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Ensure the financial report is logically structured and easy to read. The degree of detail required in the financial report will be determined by the entity type and size.

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All of the above are relevant to everyone in your organisation, including directors and volunteers.

# Ways to ensure quality financial reporting

## *A final thought...*

The financial reporting function requires the involvement of more than just the organisation's Treasurer or finance manager. The financial report is your organisation's annual report card which will be used by a broad range of people, many of whom will have a direct impact on the report and as a result a direct interest in it:

- Your directors, who have developed and adopted a strategic plan and need to assess progress against that plan
- Management, who are responsible for managing the organisation's budget and the efficient operation of the organisation
- All operational functions within the organisation such as purchasing, payroll, organising competitions, marketing, communications, member relations, talent programs, funding applications, community relations, and various functions.
- Your sporting participants and volunteers.
- Your bank, grantors and creditors



***Questions directors should ask***

***Some  
questions  
directors  
should ask  
when  
reviewing  
financial  
reports***

1. Do our current and readily available assets cover our short-term liabilities?
2. Are we profitable?
3. How does our operating result for the year compare with our budget?
4. How many days of cash do we have available?
5. Does the financial report reflect the directors' understanding of the financial performance and financial health of the organisation?
6. Is the annual operating result disclosed in the financial statements consistent with the management reports considered by the board during the year?
7. What basis of accounting was used in the preparation of the financial report? Have there been any changes in accounting policies?
8. Is there any unspent grant money still held, and if so how is it reported in the financial statements?

***Some  
questions  
directors  
should ask  
when  
reviewing  
financial  
reports***

9. Do we have adequate resources to fund accumulated employee leave balances?
10. How adequate are our reserves when compared with our strategic objectives?
11. Are there any trends in either revenue or expenses that are cause for concern?
12. Are we confident that our non-current assets are in good order and condition?
13. What are the main reasons for the change in this year's results compared to last year?
14. Are the financial statements compliant with all relevant regulations or accounting standards?
15. What are the major risks facing the organisation and is there any provision for them in the financial statements?



## **Questions to ask the auditor**

***If your organisation's financial report is audited, here are some questions the directors should consider asking the auditor:***

1. Has the scope of the audit changed from last year and, if so, in what areas and why?
2. What industry and business-specific risks have you identified that affect our organisation's financial reporting?
3. What high-risk audit issues have you identified and what is your planned audit approach for these issues?
4. Where do you see our most significant areas of fraud risk residing in our operations and how will your audit address these issues?
5. How will the auditor evaluate the organisation's risk management processes related to financial reporting?



## ***Statutory reporting obligations***

# Financial reporting obligations

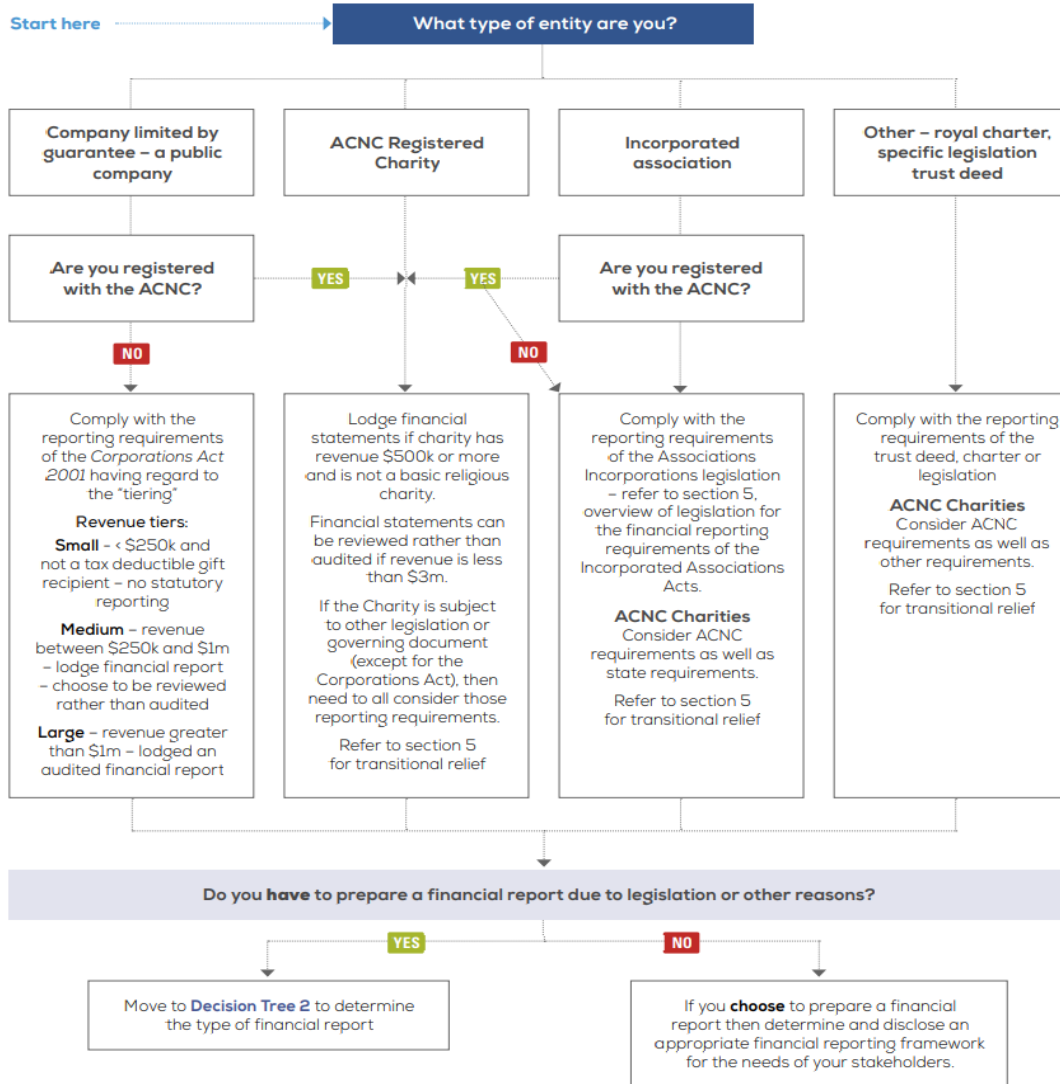
The form and content of annual financial reports is determined by the type of legal entity that your organisation operates under, the size of the organisation and the specific requirements of the organisation.

Detailed decisions trees are include in the appendices or can also be found on this link [Enhancing not-for-profit reporting: Part B Enhancing financial reporting \(Australia\) | CA ANZ \(charteredaccountantsanz.com\)](https://www.charteredaccountantsanz.com/enhancing-not-for-profit-reporting-part-b)

Further information relating to financial and other reporting obligations can be found on this link [Enhancing NFP and Charity Reporting Part A November 2021.pdf](#)

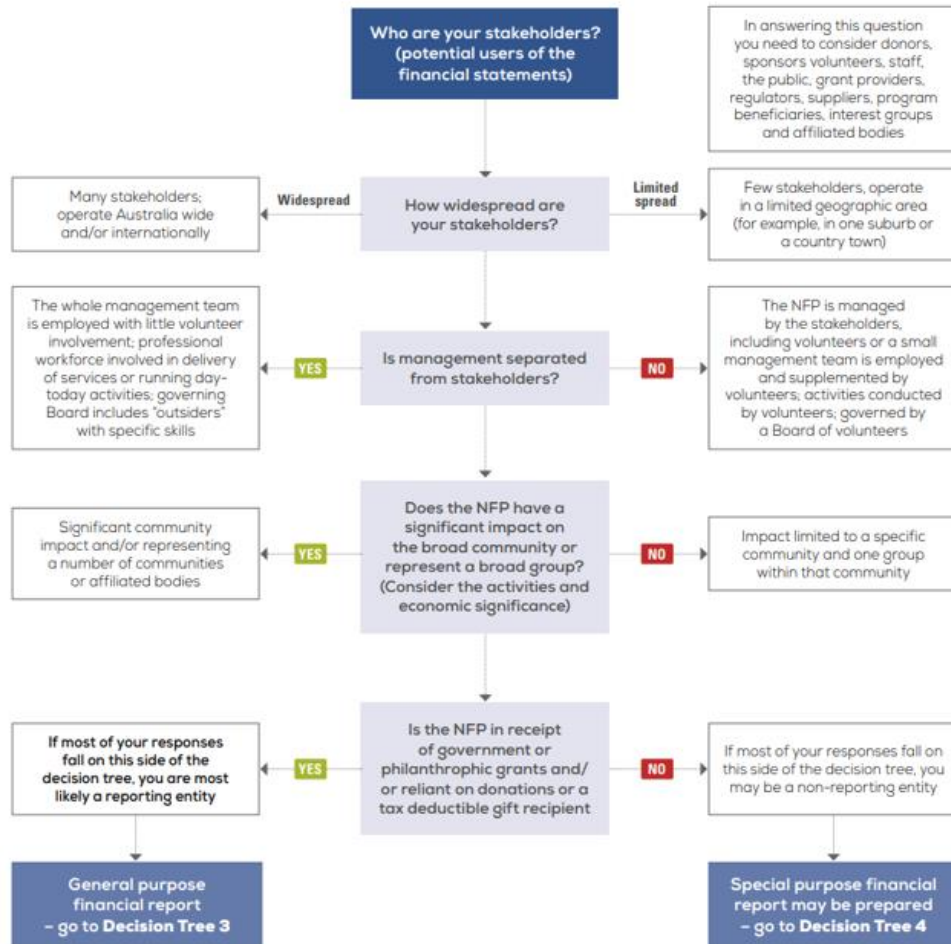
# Appendices

## Decision Tree 1: Do you have to prepare a financial report?

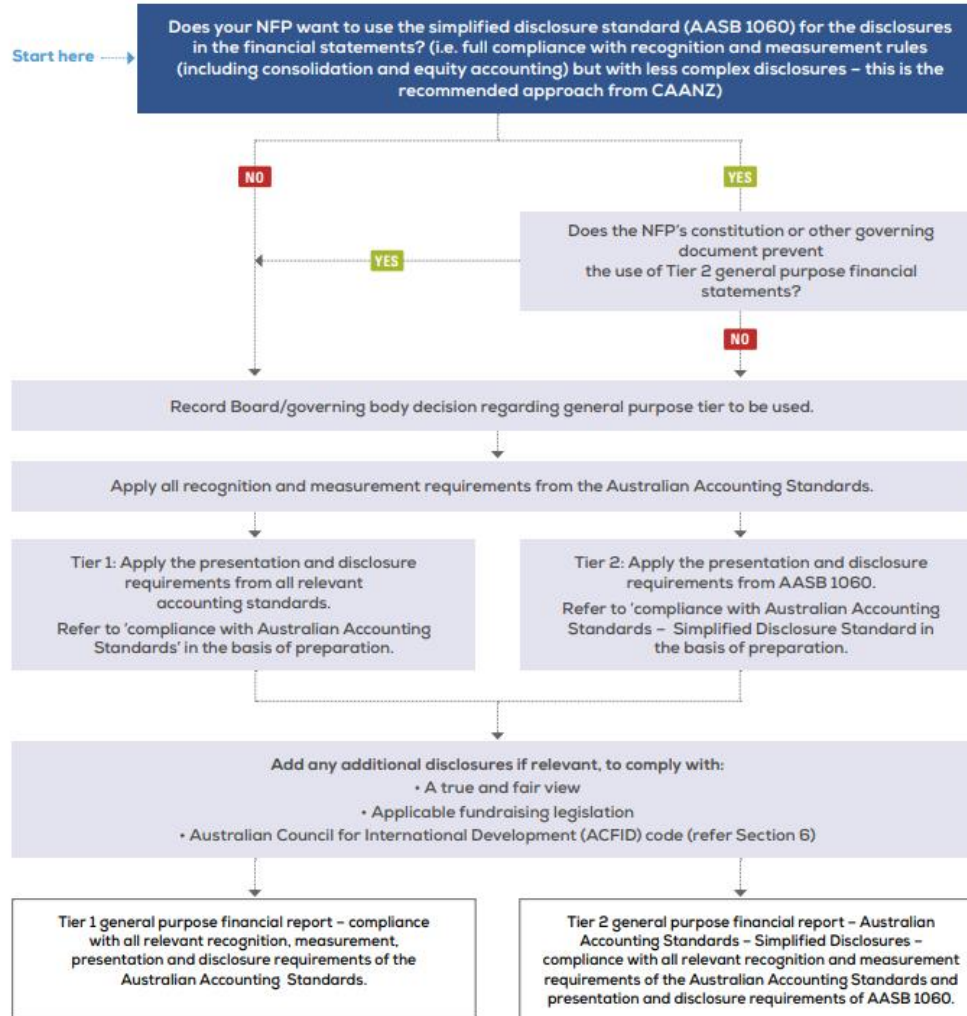


## Decision Tree 2: Special or general purpose financial report

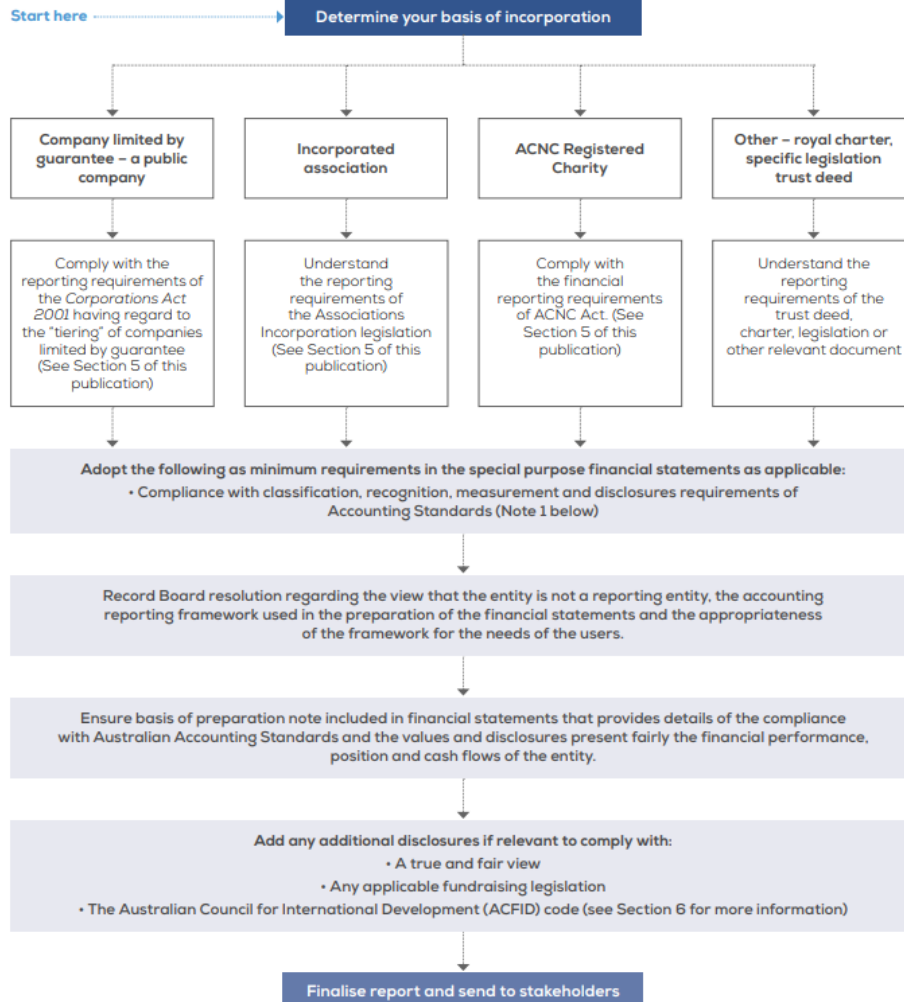
The financial statements prepared by NFP entities in accordance with legislative requirements must be in compliance with the accounting standards and Statement of Accounting Concept 1 *Definition of a Reporting Entity* (SAC 1) issued by the Australian Accounting Standards Board which set out the detailed consideration as to whether an entity have to prepare general purpose financial statements or can prepare special purpose financial statements. The decision depends on whether the entity is a reporting entity (i.e. an entity for whom it is reasonable to expect the existence of users who would rely on the general purpose financial statements for the purpose of allocating resources). While this is a judgmental area, the factors below can help the Board/governing body in their determination.



### Decision Tree 3: Contents of the general purpose financial statements



## Decision Tree 4: What do you include in a special purpose financial report?





# Resources

- NSW Office of Sport – Financial Management Toolkit
  - [oos-sports-financial-management-toolkit.pdf \(nsw.gov.au\)](#)
- Chartered Accountants ANZ
  - [Enhancing not-for-profit reporting: Part B Enhancing financial reporting \(Australia\) | CA ANZ \(charteredaccountantsanz.com\)](#)
- Institute of Community Directors Australia
  - [Institute of Community Directors Australia \(ICDA\) | Questions every...](#)
- **Pitcher Partners**
  - **Carl Millington**, Consultant, Business Advisory, Sydney - [Carl Millington - Pitcher Partners](#)

# Thank you



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