



“The later accounts are, the less useful they are full stop, because they are plumb obsolete.”

David Davis MP, PAC Session of evidence, June 2000

The benefits of accelerating the timetable for the preparation and submission by departments of their annual resource accounts are widely acknowledged. The aim of this booklet is to help departments achieve “faster closing” of their accounts. It brings together established practice in the private sector and elsewhere against which departments can benchmark their current systems and procedures.

The Treasury has produced a range of booklets in the “Managing Resources” series (see page 12) aimed at helping departments obtain the full benefits from the new resource based approach.

However, if resource based information is to be of benefit to the user, it must be timely, relevant and accurate. The present practice of laying resource accounts before Parliament some ten months after the end of the financial year means that much of the information has already lost its impact. Since the information is largely historic, there is little incentive to undertake further interpretation or analysis. The opportunity to maximise the use and benefit of this information is therefore lost.

The Government’s current target is for all departments to achieve the delivery of their final consolidated resource accounts to the National Audit Office (NAO) by the end of September following the year-end. The goal is for departments to have their resource accounts signed, certified and laid before Parliament by the Summer Recess. The aim is to achieve this on a schedule aligned to the production of Whole of Government Accounts.

Bringing forward the timetable for preparing resource accounts in this way will be challenging for many departments. But, equally, it is universally agreed that the current position is untenable in the longer term. Set against this is the risk that a shortened timescale can present in terms of compromising the overall quality of the information produced. Experience elsewhere has already shown that robust quality control procedures can help avoid this risk.

This booklet examines the benefits of, and barriers to, faster closing and suggests ways in which departments and the NAO can work together in partnership to achieve this. It is structured as follows:

	Page
Benefits of faster closing	3
Barriers to faster closing	6
Overcoming the barriers	8
Working in partnership to achieve change	10
Further information	12

Benefits of faster closing



The statutory deadlines for the preparation and submission by government departments of their annual accounts are set out in the Government Resources and Accounts Act 2000, and follow the timetable laid down in the Exchequer and Audit Departments Act 1921.

Current reporting framework

The current reporting framework requires:

- Departments to submit their accounts to the Comptroller and Auditor General (C&AG) by 30 November in the year after the financial year to which the accounts relate.
- The C&AG to submit audited accounts to the Treasury by 15 January.
- The Treasury to lay those accounts before Parliament by 31 January.

This means that Parliament is receiving information ten months after the end of the financial year to which it relates, too late to act as anything other than an historic record.

In addition, the risk of post balance sheet events impacting on the accounts is higher given the length of time involved. This approach can be contrasted with executive agencies which by and large achieve closure, audit and presentation by the Parliamentary recess a little over three months after the end of the financial year.

Benefits to departments of faster closing

From the departmental perspective, there are a number of strong arguments in favour of the early completion of annual financial statements.

- Timely financial statements, with clean audit opinions, are evidence of financial discipline and data integrity.
- With accruals accounts, significant post year-end adjustments are more likely to occur. The longer a department leaves its accounts unsigned and unaudited, the greater the probability that they will need to be adjusted as a result of a post-balance sheet event. As well as potential Excess Vote implications, this involves more work for both preparers and auditors. Set against this would be an understandable reluctance on the part of the auditors to sign off the accounts if a significant event were impending.
- In order to assist public expenditure planning, for both the Treasury and departments, it is essential to have reliable outturn figures for public spending in order to calculate departmental End Year Flexibility (EYF) entitlements. If, after audited accounts are published, it is discovered that departments' numbers differ greatly from their provisional (unaudited) outturn in the summer Outturn White Paper, the EYF entitlement has to be adjusted accordingly. This does not make for good departmental planning.
- Similarly, on grounds of good administration and planning, there is a need to have audited accounts in time to have reliable information on resource consumption to inform the biennial Spending Reviews.
- Reliable, timely information means that issues generally, including errors, are detected sooner, so that the integrity of management information is confirmed and management decisions are made on a firm footing.



Benefits of faster closing

- Avoidance of staffing 'peaks' and over reliance on temporary staff through a more balanced work programme is likely to lead to cost savings and free finance staff up for other more strategic functions.
- Timely accounts would link better to the Supply Estimates cycle.
- The overall accountability framework would be enhanced by faster closing, including accountability to Parliament.

Private sector experience

The market's need for up-to-date company information makes the timely production of year-end financial statements important in the private sector.

The Companies Act 1985 places a statutory requirement on public companies to produce their accounts within 7 months, and private companies within 10 months, of the period end. The listing rules of the UK Listing Authority further require listed companies to publish their annual report and accounts within 6 months of the year-end. In practice, most companies publish them earlier, in response to market demands.

The statutory deadlines in the Companies Act are likely to change. The final report of the Company Law Review (CLR) *Modern Company Law*, published in July 2002, argued that "Annual reporting today, particularly by quoted companies, is unsatisfactory...the law allows it to be far slower for shareholders and the public than is justifiable in modern conditions".

In the light of this, the CLR recommends that :

- Quoted public companies should publish their accounts on a website within 120 days of the year-end.
- Both quoted and unquoted public companies should file their accounts within 180 days.
- Private and small companies should file their accounts within 7 months.

Achieving faster closing

Senior management commitment to timely and accurate reporting is essential if departments are to achieve faster closing. Commitment needs to be at board level rather than solely the domain of the Finance Director or Principal Finance Officer, given that the area under scrutiny would relate largely to budgetary control and finance. In practice this would mean that:

- Faster closing is seen as an integral part of the accounting/business process and not in any way separate or an add-on to the overall reporting framework.
- Management would need to be seen to act on the information produced, chasing as necessary if any delays are occurring within the system.
- Monthly and quarterly reconciliation of data is necessary to avoid significant additional work at the year-end. Where appropriate, this should be completed before the month or quarter end, with adjustments for transactions taking place within the final few days – in other words, the bulk of the work should by then already be cleared, leaving a fairly straightforward residue to deal with afterwards.

Benefits of faster closing



- Technology should be used wherever possible, since on-line reconciliation can be achieved much more quickly than waiting until after the event. For example, many bank account details are now available on-line, rather than having to wait for the statements to arrive in the post after the period end. Such arrangements can also frequently be replicated with suppliers and others, thereby saving even more time in the overall process of closure and reporting.
- More use should be made of estimates and judgements where appropriate, within agreed limits of accuracy/materiality. This is crucial to achieving faster closing and will require a change of approach throughout the organisation, not just within the finance function.
- Further progress needs to be made in terms of developing the partnership between the department and the auditor, gaining an understanding of the year-end and audit process from each other's perspective and being aware of internal and external pressures on each side.

Case study 1: OFGEM

A key driver behind faster closing has been the desire of OFGEM's Managing Board and its Audit Committee to report as early as possible, and in any event before the summer recess. This in turn has put pressure on finance staff and the auditors.

OFGEM has monthly period closure that reviews the trial balance. Operating Cost, Balance Sheet and Cashflow are produced and reviewed against budget; the year end is not so different from any month end.

Period closure includes reconciliation of all key accounts such as bank, suspense and clearing accounts. This generates good understanding of a fully reliable trial balance, and this is the essential starting point for prompt final accounts. The design of this process was based on a risk evaluation of the OFGEM financial processes and the trial balance.

Detailed project plans are written and agreed for final account production. The plan includes timetabled actions for the finance function and for all other relevant areas (eg human resource function); this is reviewed closely and regularly to prevent accidental oversight of critical details and timings.

The role of the auditors is critical. A joint risk assessment, arising principally from interim audit, and a generally close and open relationship, plus shared reliance on strong internal audit, identifies any issues early so that remedial action can be taken before the year end.



Barriers to faster closing

There are currently a number of barriers to achieving faster closing within central government. These include:

Barriers

Short to medium term barriers

- Systems difficulties, with interdependent (and sometimes incompatible) systems requiring manual reconciliation and consolidation to achieve departmental level results resulting in inadequate quality of data.
- Size and complexity issues, with many outstanding and deep seated difficulties still to be overcome within some departments.
- Less concern (arguably) about non-cash items due to lack of impact on cash flow.
- Managing in-year through cash and only adjusting for accruals at the year end.

Priorities and timing

- Work scheduling, timetable slippage and the knock-on effect on the audit timetable.
- The need to consolidate information, eg from executive agencies, before the overall accounts can be produced.

Ongoing issues

- Surprises – eg results not falling within expected parameters, necessitating a whole range of cross checks and corresponding adjustments.
- A lack of senior management perception in some cases that faster closing matters.

Operating accruals in-year

As noted earlier, one of the difficulties of the current arrangements is that in some cases departments are continuing to operate on a cash basis in-year and only making accruals adjustments at the year-end, thus making in-year reconciliation impossible.

If this is the case, many (if not all) of the benefits of the resource based approach to financial management are lost. Around a quarter of (mainly small) departments are still reliant on cash based systems, whereas the majority of departments have accruals capability even if they are not currently using it fully in-year.

Working on cash budgets in-year also leads to a tendency to escalate spending towards the year-end to avoid the centre of the department clawing back any underspend, thus replicating the fundamental disadvantages of the cash based approach. In addition, the amount of work which as a consequence needs to be undertaken after the year-end further delays the auditing and reporting process.

Adequate skills and staffing

One of the areas in which a number of departments have attracted criticism is the lack of skills and staffing to produce good quality financial information that is both timely and accurate. Areas to consider include:



Barriers to faster closing

- Careful planning to ensure that peaks and troughs of activity throughout the year are managed to avoid shortages of staff at key periods.
- Using temporary staff, bearing in mind that many organisations also have the same key periods – eg post year end – making the supply of temporary staff at these times less certain.
- Planning recruitment as far in advance as is reasonably practicable, given the long lead times between placing an advertisement and the person taking up post.
- Factoring in training, especially at off-peak periods, to ensure the necessary skills are in place at key times.

While this approach may seem common sense, a number of departments have been criticised for suffering from inadequate skills/staffing in the absence of a strategy to ensure the necessary arrangements are in place.

Case study 2: The Met Office

Senior management commitment to early accounts production is essential, and the Met Office is no exception. The Audit Committee is of a high calibre, with high expectations, and the Met Office finance staff want to be seen to deliver early (including competitively with the other MoD agencies). There is also a clear goal: delivery before the summer Parliamentary recess.

Most essential of all is the effective partnership between the Met Office and the auditors, including regular meetings to agree detailed timetables and deliverables, monitor performance and identify and resolve issues early, with real openness in the relationship.

Underpinning this is an efficient audit approach which includes early planning (December); systems work before the year end (interim audit in February, representing some 50 per cent of total audit effort), including of performance measures; audit methodology; placing emphasis on risks and high level controls; and reliance on internal audit.

Throughout the year, good management accounting practice acts as a driver for good financial accounting practice, as the year-end is then only a special sort of period-end. Examples include:

- the installation of much improved costing systems generating better information more speedily with the considerably greater use of automation which also brings in more sub-systems (such as for stocks) which had been previously separate;
- significantly greater importance attached to timeliness, and making all processes subject to a rigorously enforced deadline of 9 days after the period end for getting management accounts out; also to basic disciplines (reconciliations etc);
- commitment to these improvements by the Audit Committee; and also by management, including the use of league tables to drive through improvement and training with better guidance on roles and responsibilities, better procedures and better procedure manuals etc.



Overcoming the barriers

One of the main issues to emerge from analysing the barriers to achieving faster closing is the need to ensure that financial and management information is at the heart of departmental planning and performance frameworks, and not just an add-on to the process. By integrating consolidation and reporting with output and performance, departments can reduce the risk of the barriers identified in the last section impacting on the closure process.

Planning to help overcome the barriers

The use of project management techniques, coupled with appropriate performance measures, is essential if the reporting cycle is to be completed on time with high quality information provided.

In order to do this:

- Key milestones should be defined and agreed, with responsibilities allocated to ensure ownership and accountability throughout the entire closing and reporting process.
- Actions must be measured, otherwise they are difficult to control, and almost certainly cannot be improved without the comparative data from how they were completed the last time around.
- Clear measures must be established to ensure that everyone involved in the process understands both their own role and how this impacts on the bigger picture – and, perhaps more importantly, what the impact of non-delivery of their own component part will be.

Achieving the timetable – key dates

At the highest level, in order to meet the current administrative deadline for departments to deliver their final consolidated resource accounts to the NAO by the end of September, a typical plan may look like this:

First Draft Core accounts	30 th June
Final Core Accounts	31 st July
Submission of final subsidiary accounts to Centre	31 st July
Consolidated account preparation	1 st – 31 st August
Complete Foreword, Statement of Internal Control	6 th September
Management Review	7 th – 30 th September
Final Consolidated Resource Accounts to NAO	30 th September

Some departments are already achieving this. For those who are not, since the issues faced by individual departments vary considerably across Whitehall, it is envisaged that departments should consider, in the light of their own circumstances and in agreement with the Treasury and the NAO, how meeting the 30 September target date can best be delivered. The progress of individual departments towards achieving the target would then be monitored against the agreed plan to ensure that the deadline is met.

Overcoming the barriers



Clearly, in order for departments to have their resource accounts signed, certified and laid before Parliament by the Summer Parliamentary Recess, the timetable would need to be accelerated accordingly.

Faster closing – meeting the needs of the user

When producing information, it is essential that the needs of the user are considered, including the level of accuracy to which the data have been prepared.

Departments should reach a view of what this will mean in practice and should discuss and agree this with their auditors. Little is achieved by refining information until it is precisely right but considerably out of date and/or too late to be relevant for decision making purposes.

It is therefore worth considering the following:

- Using estimated data, if possible, rather than delaying the process unnecessarily. The methodology needs to be agreed in advance with the auditors, to ensure a meaningful overall picture is achieved without compromising the true and fair view.
- Monthly/quarterly reports need to be relevant, appropriate and above all timely. Monitoring of usage will help ensure they continue to be so.
- Information needs to be produced in a format that is actionable and avoids reporting what is merely interesting. The use of summaries and drill down presentation, coupled with exception reporting as appropriate, will result in reports that are used in the ongoing management of the department.
- Assessing current IT capabilities against future IT strategy to ensure continuous improvement in producing and using data. The advantage of this is that reports valuable to management are continuously in demand, thus keeping up the pressure on the timeliness and accuracy of the information provided.
- Moving towards budgeted cost charges for facilities management will also speed up closure procedures where actual charges do not differ significantly as this can be represented as a post year end adjustment.
- Prompting sub-ledger cut-offs if the main cut-offs are to be achieved, as well as completing as much work on suspense accounts etc at the pre-close stage.
- Clear policies such as in defining significant accruals and book entries required will also help.
- Capitalisation thresholds need to be reviewed at appropriate intervals in conjunction with the auditors as this can have a significant impact on the amount of work required to produce data relating to asset management – ie acquisitions, disposals and depreciation calculations.

Integrating financial information in this way means that the year-end consolidation procedures will be much more straightforward and deadlines easier to define and achieve.



Working in partnership to achieve change

Working in partnership

It is essential that departments and the NAO work in close partnership in overcoming the barriers to accelerating the timetable for the preparation and submission of the annual resource accounts.

For example, it is vital that departments identify and agree with the NAO at an early stage any audit work that can take place in-year, thus lessening the pressure at the year-end.

It is also critical to the NAO's planning processes that departments highlight any delays in producing information. Otherwise it may not be possible to re-programme the audit work, given that the NAO is carrying out a whole series of audits simultaneously and may not be able to re-schedule at critical points during the year.

Moving towards faster closing will mean all parties involved in the preparation and auditing of resource accounts reviewing their practices – including current timescales, quality standards and the mechanisms for resolving material problems quickly and efficiently – in order to foster the most effective working partnerships.

To illustrate how this can best be done, here are 10 ways in which departments can help to smooth progress towards faster closing.

Faster closing: 10 ways departments can help

1. Departmental Accounting Officers and Principal Finance Officers must give the lead by viewing prompt account production as a critical business process.
2. Establish quarterly or monthly resource-based management accounts and proper systems to support them.
3. Implement a detailed account compilation programme – including a cut-off point for changes to the accounts, signing by the C&AG and publication – and ensure planning extends to everyone involved, not just finance staff.
4. Prepare a complete pro forma account with all disclosures, including any new requirements, well before the year end, and discuss with auditors. Draft accompanying report as soon as possible.
5. Carry out a quarter 3, month 10 or month 11 close on which to base final accounts.
6. Don't expect improvement to be achieved by over-reliance on one or two key staff, and try to ensure staff continuity.
7. Acquire and train professionals as necessary, and pitch responsibility for accounts at sufficiently senior level (at least grade 7).
8. Make space for staff directly tasked with account production to focus on it during the production period, with minimum distraction.
9. Draw up a schedule of audit progress meetings with the NAO to discuss issues, monitor progress against timetable and review the process on completion.
10. Appoint independent members to the Audit Committee, preferably from a commercial background, to engender a commercial attitude.

Working in partnership to achieve change



Faster closing: audit involvement

Equally, it is important that auditors too play their part in ensuring that faster closing can be delivered as smoothly and efficiently as possible.

The NAO fully supports faster closing. They have previously set out in their guide 'Resource Accounts: Preparing for Audit' the steps and documentation required by departments if auditors are to be able to certify accounts promptly. This is fleshed out by the annual Client Liaison Memorandum for each department.

The NAO has also adopted a revised risk-based audit approach ('Audit 21') that will enable speedier certification if departmental control systems are sound. The approach focuses more closely on risks and the controls that departments have to deal with them and has been supported by substantial investment in new audit software ('Team 21').

Good control systems that departments adopt for their own benefit thereby enable effective interim audit to be carried out earlier. And fully fledged accrual accounting, with 'third quarter' or 'period 11' closures, facilitates a speedy final audit.

The NAO recognises, however, that it can contribute to faster closing in other ways. It already has policies to ensure staff continuity on the audit wherever possible and to bring in contracted staff where appropriate. And it is conscious of the burden placed on departments in familiarising new audit staff.

The NAO will continue to work to meet departments' expectations in these areas, recognising that a true partnership between auditor and audited body will be crucial if faster closing is to be achieved across all departments.

Overseas experience

The Treasury is also looking at similar developments in other countries. For example, the US General Accounting Office (the US equivalent of the NAO) is promoting faster closing. It is currently considering a work programme with initial testing six or seven months into the financial year based on samples taken at the half year, followed by testing at year-end on the following four or five months, with an analytical review of the final month completing the programme for the year.

In this way, it is possible to provide an audit opinion relatively quickly post year-end. A (small) number of US agencies – eg Social Security – are already providing audited financial statements within six weeks of the year-end, and have done so for several years. The US Treasury is also now aiming to do so, to set an example to other agencies.

Using accruals in-year is essential

For earlier closing, in partnership with auditors, to be successful, departmental accounting systems must however operate on an accruals basis throughout the year. As noted earlier, some departments are continuing to operate on a cash basis, thus making in-year audit work impossible. This will need to change if an audit opinion is to be provided quickly after the year end.



Further information

“Managing Resources” booklets

Further information on resource management issues is on the Treasury's website www.hm-treasury.gov.uk and is included in many published documents. Other booklets in the “Managing Resources” series (copies available from Anne Perryman, e-mail: anne.perryman@hm-treasury.gov.uk) include:



Implementing resource based financial management (the “New Blue Guide”) – September 2002



Analysing resource accounts: an introduction (the “Short Red Guide”) – June 2001



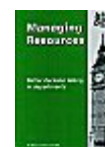
Case studies (the “Orange Guide”) – January 2002



Analysing resource accounts: user's guide (the “Big Red Guide”) – June 2001



Reporting to the Board (the “Burgundy Guide”) – July 2002



Better decision taking in departments (the “Green Guide”) 2nd edition – July 2002



A strategic approach to finance training (the “Pink Guide”) – September 2001



Maximising the benefits for departments (the “Purple Guide”) – June 2001



Summary (the “Blue Leaflet”) – January 2002



Accountability (the “Chocolate Guide”) – July 2002

Other guidance

The Resource Accounting Manual is available at www.resource-accounting.gov.uk.

Resource budgeting information is available at www.hm-treasury.gov.uk.

Information on Whole of Government Accounts is available at www.wga.gov.uk.