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Prompt and accurate financial accounts are fundamental to the exercise of good financial discipline. They:

— enable an organisation to establish quickly its current financial position
— provide relevant and up to date information about service performance
— aid decision making by managers
— inform the annual business planning process
— help to demonstrate proper stewardship of stakeholders' funds, and
— secure prompt compliance with statutory requirements regarding the preparation and publication of annual accounts.

Local government has a strong tradition of sound financial administration, founded on the cornerstone of good accounting systems, procedures and controls. However, these are having to cope with a whole new set of circumstances - continuing tight government control over resources, greater delegation of financial control to managers, increased competition for blue and white collar services, and a proposed major restructuring of local government – and problems are emerging.

Traditional methodologies used to prepare and control budgets have become outdated. The speed and quality of production of annual accounts has improved but there is scope for much prompter reporting. The inadequate operation of basic financial controls has led to failure or delay in the identification of actual or potential losses. Whilst such incidents are rare at present, they hint at a general slipping of standards. This is perhaps not surprising given the relentless pressure of change on local government activities. However, if they are not later to lose public confidence in their ability to manage public funds under their control, authorities need to review the adequacy of their financial accounting arrangements. A priority for all must be to ensure the continued satisfactory performance of the routine but important tasks which are the essence of good financial accounting.

'...A priority must be the satisfactory performance of the routine but important tasks which are the essence of good financial accounting...'
This Paper focuses on the principal management issues which need to be addressed not only by local authorities but also by the government, the Commission and its appointed auditors. In particular it points up the key factors which should help authorities to maintain the highest possible standards of financial accounting during the current sustained period of change. In summary, these include:

— developing a more flexible style of financial management
— placing greater emphasis on providing high-quality financial information
— operating more robust financial control procedures
— committing resources to achieve speedier production of the annual accounts.

To assist authorities in this endeavour, the Audit Commission is publishing jointly with CIPFA a detailed management handbook for finance practitioners. This will promote the good practice observed during a recent Commission study of aspects of financial management and budgeting, provision of financial information to managers, maintenance of financial records and annual accounts production.

INTRODUCTION

1 Front-line managers are demanding a greater say in the control of the resources at their disposal and there is recognition that greater delegation to them of financial responsibility makes sense. However, achieving a better alignment of management and financial responsibilities will require many local authorities to adapt their existing financial structures. It will also require a sharpening of the procedures for preparing and controlling budgets. Just as ensuring increasingly scarce resources are properly matched to agreed policies has become crucial to the success of the annual budget-making process, so too more emphasis is needed on the production of incisive and better focused financial reports and the implementation of vigorous but less cumbersome monitoring procedures if budgets are to continue to be kept under effective control.

2 To complement the greater financial responsibility which is being delegated to them, managers expect now more than ever before to receive high-quality financial information. Making the right operational decisions in an increasingly competitive, commercially oriented environment requires information to be as relevant, accurate and up to date as possible, available as and when required, and presented in a format which can be readily understood. Meeting these demands will require the introduction of better systems for capturing, processing, formatting and disseminating information than are presently in use at many authorities.

3 There is some evidence of the failure of current financial structures, systems and procedures to withstand the pressures and additional challenges which change imposes on authorities. Also, with the prospect looming of competition in the provision of financial services and, for many, of another large-scale reorganisation of local government, it is possible that staff may become diverted from the routine but nevertheless fundamental and essential task of maintaining tight financial discipline. Particularly in times of change there is a sound case for operating a more not less robust regime of financial controls.

4 In its Statement on Financial Reporting, CIPFA has committed its members to upholding the highest standards of financial accounting and reporting by emphasising strongly the need for local authorities to be more concerned to ensure the prompt production and publication of annual accounts. In an environment where the citizen, whether as a financial contributor or as the recipient of local services, is being offered the opportunity to exert more influence over the setting of standards through the monitoring of service performance, it is right and proper that the profession should be in the forefront in taking initiatives to improve accountability and demonstrate proper stewardship of public funds.

5 It would be wrong to give the impression that local authorities have failed to address these issues. Many have reacted positively to change and their financial operations are indeed 'regular as clockwork'. Some have been less successful or have made little or no progress. Scope remains for raising overall standards by improving the performance of the worst and the not-so-good to that of the best, both within and outside local government, through dissemination of good practice.

I. FINANCIAL MANAGEMENT

6 Good financial management is about securing proper stewardship of public funds and utilising resources ef-
iciently and effectively to deliver services in accordance with agreed Council policy. This means ensuring that budgets are neither overspent through inefficiency and waste nor, where services are demanded, needlessly underspent. To be able to achieve these objectives in the current climate of public expenditure cutbacks, the methods by which authorities prepare and exercise control over their budgets are having to be Reappraised. For many, developing a more flexible and responsive framework of financial control is likely to be a foremost consideration.

FORMULATING A FRAMEWORK OF FINANCIAL CONTROL

7 The exercise of tight control and monitoring by the centre of detailed spending remains a characteristic of a significant number of authorities. Whilst this is often for historical reasons, some Chief Financial Officers regard control over the purse strings as essential in the light of present government constraints on local authority expenditure. This approach has its drawbacks. It can lead to an unwillingness on the part of front-line managers to take responsibility for financial decisions and result in genuine confusion (or feigned ignorance) over which managers should be monitoring spending. Also it can provide little incentive to manage well and inhibit managers from responding as they should to customers' needs.

8 A proper alignment of financial and management responsibilities would ensure that those making decisions are made more responsible for the financial consequences. Otherwise financial decisions may be made regardless of the effect on services and services may be managed without regard to finance. The process of making financial responsibility match the reality of managerial control should start by building up a picture of how current management arrangements work (Exhibit 1). A methodology for then developing a better structure was set out in a previous Audit Commission Occasional Paper entitled Better Financial Management. In essence this expounded the four basic principles outlined in Box A.

9 The setting of levels of responsibility is a matter for local discretion – financial control should not be delegated to the lowest tier of the management hierarchy just for the sake of doing so. It is highly likely, in any case, that the redrawing of the reporting lines will result in a horizontal as well as a vertical span of control reflecting the fact that some

Exhibit 1
MATCHING FINANCIAL RESPONSIBILITY AND MANAGEMENT CONTROL
The process should aim at identifying who should be the budget-holder

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<td>1. Breakdown each main service budget e.g. Leisure into its constituent objective heads i.e. sports centres, swimming pools, etc. Obtain a subjective analysis of each objective head as used in the general ledger e.g. salaries, premises maintenance, etc.</td>
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<td>2. Interview line managers, using the following simple questions, to establish who is accountable for controlling the relevant subjective head: Operational Responsibilities (A) Who controls the resource on a day to day basis? (B) Who receives management information about the use of the resource? (C) Who monitors the use of the resource? Financial responsibilities (A) Who authorises the charge to revenue on a day to day basis? (B) Who receives budget reports? (C) Who monitors the expenditure?</td>
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<td>3. Answers to similarly referenced questions should be matched i.e. (A) (Operational) with (A) (Financial) and the results analysed to highlight instances where operational and financial responsibilities do not coincide. The analysis can then help to explain why and where changes in management arrangements may need to take place.</td>
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Source: District Audit Service: Region Seven

Box A
FOUR BASIC PRINCIPLES OF GOOD FINANCIAL MANAGEMENT

- Every cost centre budget should be administered by one, and only one, named budget-holder
- Budget-holders should be made responsible only for expenditure which they can influence
- Expenditure which they cannot influence should be managed elsewhere
- Senior managers should supervise the management of those reporting to them
responsibilities, say for building repairs and maintenance, cut across the service and cost centre structure. This can be made to work provided the budgetary role of each budget-holder and each tier in the management hierarchy is clarified.

10 An authority should therefore have regard to its management organisation and lines of communication when formulating its financial control framework. At authorities where financial responsibility has been devolved, the importance of defining the links in the chain of command is recognised through the issue to budget-holders of formal guidelines or handbooks setting out their duties, rights and responsibilities. To reinforce the message many have provided training.

11 The role of the Chief Financial Officer within the framework needs especially to be recognised and clearly defined. It carries responsibility for seeing that resources are managed properly and in a way which ensures the financial well-being of the authority as a whole. The relationship between the CFO who advises Members collectively on financial matters and the individual budget-holder is therefore crucial to the maintenance of aggregate control of the budget.

12 The key to the development of a successful partnership will be an understanding of the need for financial advice to be given impartially and free of central interference. This will lead finance staff to minimise their direct involvement in the detail of budgetary control. It will also require them to spend more time in the departments they serve to improve their understanding of service requirements. This is often achieved through the simple expedient of more day-to-day contact through regular site visits but is perhaps best done through some form of decentralisation of the finance function.

13 A significant number of authorities have followed this route. Their experience suggests that increased decentralisation should not result in any diminution of financial control provided budgets are properly targeted and there are adequate reporting and monitoring procedures in operation. It should be possible, even following the introduction of 'white collar' CCT, for more authorities to benefit from the advantages of greater financial delegation.

**PREPARING THE BUDGET**

14 No amount of fine tuning of the financial control framework will ensure a satisfactory budgetary performance if the process of preparing the revenue budget does not result in a proper match of resources to policies. Most authorities have found that this objective is not straightforward to achieve in the current financial climate where resources may be constrained by government funding policy. Frequent changes to levels of grant entitlement, coupled with 'capping' controls, do not help.

15 Despite these difficulties it is important to emphasise that the annual budget approved by Members gives authority to officers to spend. It should therefore be based as far as possible on a longer term policy strategy. Otherwise the short term tactical process of matching resources to policies can involve compromise and the use of temporary expedience. As well as failing to ensure a proper fit with the authority's stated objectives, this may not always result in the provision of the best range of services for the money available.

16 The achievement of long-term stability in the budget is critical if services are to be maintained, and if necessary expanded, without resorting to excessive increases in the council tax and running the risk of capping. This is reliant in turn on the existence of a policy-planning process which applies a 'top down' approach to budget-setting. One authority has developed a strategic approach, founded on a 4-year planning cycle, which converts long term objectives into priorities for allocating annual resources before consultation takes place with budget-holders on the detail of individual cost centre budgets (Exhibit 2).

17 The success of such an approach lies in the extra lead time – a year rather than the two-or-three month period set aside at most authorities – that it gives the authority to consider and reach conclusions about the direction in which it should be headed. It permits a more reasoned and objective debate on the shape of the budget, thus ensuring a more effective match of resources to policies. A particular feature of the process at this authority is the linking of the agreement of individual cost centre budgets to the production of a business plan outlining each budget-holder's proposals for the year.

18 Not only do business plans provide a focus for management action, they also provide the means to monitor ac-
One authority has developed a strategic approach, founded on a 4-year planning cycle. The principal elements are a statement of key objectives and priorities, an indication of the factors which may influence their achievement, an action plan detailing the way in which services are to be provided in compliance with stated objectives, an explanation of how available resources are to be used to put the plan into effect, the setting of criteria by which performance is to be measured and, finally, identification of the key indicators to be used in providing feedback as to the success or otherwise of the action(s) taken by management. Preparation of business plans can therefore be a useful adjunct to the budget-setting process.

19 Longer-term planning is never straightforward and it is acknowledged that not all authorities may have the necessary infrastructure, in terms of the technical support and staff resources required, to implement such a process. Nevertheless it remains important – and, if they are to get off on the right footing, this will particularly apply to the new authorities formed on reorganisation – that the means of preparing budgets ensure resources are properly targeted. The incremental approach commonly used by authorities has the benefit of simplicity but can result in the perpetuation of past spending patterns which bear no relationship to present-day requirements. To avoid channelling resources in the wrong direction, authorities should be aiming to keep the base budget under constant review to identify resources which can be redistributed to better effect.

20 There are a variety of budget preparation techniques which may be used to achieve this aim. Old methods like zero-based budgeting are being supplemented by a new wave of approaches designed to deal with the problem of scarce resources. Ease and speed of preparation are vital considerations. This means providing budget-holders with prompt and comprehensive guidance on issues affecting the compilation of the budget, making increased use of pro-formas and spread-
sheet facilities to facilitate production of estimates, and implementing proper procedures for accounting for the revenue effects of previous commitments.

**CONTROLLING THE BUDGET**

21 Having established the financial control framework and devised an effective procedure for preparing the budget, authorities should determine the ground rules by which budget-holders are then to exercise control. The overriding principle is that budget holders must be in charge of making sure that their budget – and no more – is spent in the furtherance of Council policy. However, they will need to understand what the boundaries of their discretion are through clear guidance on such issues as the use of virement powers.

22 These are matters over which control has traditionally been exercised from the centre. It is still common practice for Financial Regulations to require Chief Officers to seek Member approval for transfers within their departmental budgets of relatively small amounts. The application of such severe restrictions on management discretion fails to recognise that financial control by Members and senior management should be concerned with the budget total rather than the details within it, and makes a nonsense of the case for making managers more responsible for the financial effects of their decisions.

'... virement limits should be as generous as possible...'

23 Relaxation of such restrictions can greatly improve the quality of financial management. Virement is a particularly useful tool which can not only make it easier to keep total spending within budget but also provide incentives to managers to make recurring savings. The limit on virement should therefore be made as generous as possible - one authority has set a ceiling of £50,000 – to allow managers sufficient latitude to get on with their job and to use resources in the way they think best meets their stated policy or business plan objectives. Risk will be minimised if the ability to vire is treated similarly to the ability to make journal transfers and managed accordingly (see USING JOURNALS).

24 Rewarding good financial management can help to encourage budget-holders to make economies and to improve efficiency. Incentives normally take the form of discretion to use underspendings, provided they have arisen through managers’ own efforts and are not windfall gains, to acquire new equipment or to incur non-recurring revenue expenditure. More authorities are also counting the ability to control budgets as a factor in decisions about levels of performance related pay, where managers are covered by such a scheme.

25 Provision is also made in some instances for the carry over of under or over spendings from one financial year to the next. This makes sound economic sense if savings need to be accumulated, for example to acquire a piece of equipment which might ordinarily be beyond the resources normally made available to a budget holder or to make an advance bulk purchase which, whilst resulting in a temporary overspend, will save money in the longer term. Where they are the result of unplanned expenditure, the automatic carry forward of overspendings from one year to be offset against the following year's budget will of course serve notice on budget holders that they will also be penalised for poor financial management. Encouragingly, where it has been introduced, managers have responded well to the carrot and stick' approach and the overall quality of financial management has improved.

26 Given a greater degree of flexibility, budget-holders need no longer be concerned with monitoring in detail all elements of their budgets. Procedures should be streamlined so that monitoring effort is instead concentrated on those heads which are liable to require the tightest control. Differing approaches adopted by authorities include treating expenditure for budgetary control purposes as predictable, variable and discretionary, and the use of a risk index.

27 The former approach relies on the premise that certain expenditure is by its nature unlikely to vary much from budget and therefore requires minimal monitoring. In contrast, expenditure which is less predictable, being demanded, or of a discretionary nature – for example, costs of employing additional or temporary staff, overtime, equipment purchases – should be the subject of careful and more frequent scrutiny.

28 The latter approach takes account of factors likely to affect budgetary performance and, by scoring the level of risk attached to them in terms of potential to overspend, results in the production of a risk index that can be used to set the frequency with which
progress is to be monitored. By way of example, the index on this page (Exhibit 3) is based on scores, in a range of 1 (low risk) to 5 (high risk), for the value or turnover of the budget, the complexity of the activity involved, its volatility in terms of responsiveness to factors outside the budget-holder's control, and the experience and expertise of the budget-holder in managing a budget.

29 Central to the operation of an effective monitoring procedure is a reporting process which details what, when, how and to whom budget-holders should be reporting budgetary performance. Its aim should be to provide regular feedback from the bottom of the budget-holder hierarchy to the top and to give early warning of major problems requiring attention. An example of good practice is the use of a standard pro-forma to report monthly the main elements of budgetary performance up to and including Chief Officer Group level. These are used by budget-holders and their supervisors to highlight clearly for senior management those variances which are significant enough to be reported up the line.

30 Regular reports to Members should represent the culmination of the process. Yet at many authorities this rarely occurs more than twice a year – at budget preparation and outturn report time. The format of reports can also vary significantly not only between authorities but also between committees of the same authority. To ensure a consistent approach it should be standard practice to communicate results more frequently and more positively to committee as part of the normal meeting cycle, using an agreed format which highlights all major variances, provides explanations of how they have arisen and states what action or decision (if any) is required in order to redress the situation.

2 FINANCIAL INFORMATION FOR MANAGERS

31 Inaccurate, out-of-date financial information can mislead managers, causing them to make the wrong decisions. Badly presented or delayed financial information makes it difficult for budget-holders to control their spending and for senior managers to supervise their performance. Achieving better financial management is often a simple matter of getting the right information in the right format to the right person at the right time.

ESTABLISHING ACCURACY

32 Complete accuracy is difficult for most authorities to achieve because they operate their accounts on a cash basis, converting only to an income and expenditure basis at the year end. This is not so much of a problem with staff costs which account for the majority of an authority's expenditure. The main area of difficulty relates instead to accounting for payments due in respect of goods and services received but not yet invoiced and invoices received but not yet cleared. The value of this expenditure can be significant in budgetary terms because of its unpredictable nature but is regularly omitted from financial reports due to delays in processing the information.

33 In contrast, the preparation of monthly accounts on an income and expenditure basis is a way of life for private sector organisations. This follows from their widespread use of purchase ledger systems, which debit the appropriate nominal account in the general ledger as soon as an invoice is logged against a creditor for payment. They also make use of computerised purchase order systems to assist in the identification of outstanding liabilities. Only a small minority of authorities use purchase ledgers.
The alternative is to carry out the year-end manual conversion procedure more regularly, preferably on a monthly basis to link with the normal reporting timetable. A possible compromise solution involves making accruals at ‘revised estimate' time, thus providing budget-holders with an opportunity to catch up with their true position before the year end. This helps to avoid any unforeseen over-spends.

'... commitment accounting systems are now more of a realistic option...'

34 Knowledge of the value of commitments – where orders have been placed but goods have not been received – would greatly enhance comparisons of expenditure against budget. It allows a more precise assessment by budget-holders of available resources and avoids the risk of committed resources being inadvertently spent on other things. Previous problems with commitment accounting – the lack of reliable computerised systems and the inordinate amount of time required to administer them – have largely been overcome. Centralised commitment accounting systems are now more of a realistic option and more authorities are recognising their worth as an aid to budgetary control.

35 Procedures for accounting for re-charged expenditure such as central support services and DSO work may also benefit from the implementation of more robust systems. At authorities where managers have been delegated financial responsibility and have been made more accountable for ‘indirect' expenditure of this nature, there is a demand for up to date information to help them monitor their budgets. This calls in most cases for recharges not only to be fed directly into the general ledger but also to be posted more frequently than at present. Such demands have increased with the implementation of service level agreements and may increase further as compulsory competition is introduced to ‘white collar' services. Managers are now more concerned with income flow, profitability, performance targets and quality of service.

36 However, the benefit to managers of having access to more accurate figures of actual income and expenditure will be diluted if the budget figures against which they are being monitored are not also up to date. The practice midway through the financial year of allocating additional resources from a central contingency to cover November to March inflationary increases can cause confusion amongst budget holders who complain that they are never sure what their budgets are. An increasing number of authorities are recognising the advantages of preparing their budgets on an outturn price basis, that is at the pay and price levels expected to prevail throughout the financial year. Such an approach can provide a greater degree of realism in budget comparisons and therefore lead to better budgetary control.

37 Similarly, where the financing of supplementary estimates from balances or virement between budget heads has been agreed, it is important that the resulting adjustments to the budget are actioned immediately so that those involved know where they stand. To maintain overall control over the accuracy of budget figures, such adjustments should be actioned centrally to ensure that everyone is working to the same figures. Particularly where there is financial delegation, this will require budget-holders to notify the general ledger system administrator of authorised changes.

GETTING THE FORMAT RIGHT

38 The general ledger will be the main source of data for inclusion in financial reports. It is common sense therefore that the code structure should facilitate the provision of information in a format which is user-friendly and secures accuracy in the coding of transactions. In addition there should be restrictions on the ability to set up or alter codes so that the integrity of financial report writing programs can be maintained. The specific features of a good coding structure are set out in Box B.

Box B
A GOOD CODING STRUCTURE

- is matched to the management hierarchy and reporting framework to enable clear identification of cost centres by budget-holders
- is standardised so that sub and detail codes stand for the same thing across the range of services and cost centres
- follows the CIPFA standard subjective classification of income and expenditure to provide the necessary consistency of format for comparative purposes
- incorporates sufficient capability and flexibility to accommodate new information requirements or different report formats
The basic requirement of most budget-holders is a report which enables them quickly and confidently to judge how actual income and expenditure compare with the budget allocation for which they are responsible. Reinforcing the message about concentrating monitoring efforts on the 'high-risk' areas, the format of the report should be concise and focus on major variances only. This will require the fixing of criteria by which variances are to be judged as significant or not.

The way in which budget information is expressed will also be crucial to a proper understanding of the financial position. A more accurate assessment can be made if the budget is profiled throughout the year to take account of likely spending patterns. The proportion anticipated to be spent by the end of a particular period is then directly comparable with the actual spend for the same period, making reports more realistic and meaningful. Whilst many authorities have a profiling facility, few use it to its full potential. Financial reporting could often be more effective if greater attention were paid to the accuracy of budget forecasts over time.

ARRANGING DISTRIBUTION

The better run private sector organisations understand well the importance of prompt dissemination of financial information – at one company financial reports are distributed to managers within four working days of the month – and reports tend to be very concise and to the point, often taking up just one sheet of paper. This level of performance is matched by relatively few local authority DSOs or business units. As far as local government generally is concerned, the impression is that some authorities persist in producing reams of computer print-out only for it to gather dust on managers' desks because the information it contains is weeks out of date and consequently unusable. The benefits of accurate and well presented information will therefore be negated if it does not get into the hands of the right person in time for anything to be done with it.

This may mean tackling in a different way some of the processes involved in collecting, collating and distributing information. Paper flows - invoice batches, journals and so on - are a frequent source of delay because of the time needed centrally to process them before the general ledger can be up-dated. Greater use of local on-line input facilities could reduce these significantly. Likewise quicker physical distribution of computer output could be achieved by making greater use of local printers located in user departments.

Taking this approach to its logical conclusion, an increasingly attractive option is to provide managers with the facility to retrieve up-to-date information in the format which they require. By providing instantaneous on-line access to the general ledger, the practice of producing and distributing financial information from the centre will be made obsolete and managers will be able to generate reports for themselves when they require them. As long as adequate safeguards exist to restrict unauthorised access, the only major requirement will be to ensure that the general ledger is updated more frequently from feeder systems. The advantage of this type of arrangement is the greater sense of ownership of the information and accountability which it instils in managers.

GENERAL LEDGER MAINTENANCE

Adequate maintenance of the general ledger - ensuring that all transactions are captured and processed correctly – is fundamental to the exercise of financial control. It is incumbent upon every Chief Financial Officer to establish proper accounting.
procedures and to make sure that these are performed to the required standard and frequency. It is a cause for concern, however, that this duty is sometimes taken too lightly with occasionally disastrous results. For example, at one authority, the fraudulent amendment of a cheque amount which resulted in a loss of around £250,000 recently went undetected for 9 months because of a failure to monitor completion of the bank reconciliation.

CODING TRANSACTIONS

45 For transactions to be reflected accurately in the general ledger, they must firstly be allocated to the correct accounting code. If the coding process is not handled properly and transactions are miscoded, either deliberately or by mistake, it is possible that the accounts could be materially misstated. Not only will this affect the quality of financial information, giving a misleading picture of an authority's financial position, but it may result in VAT mis-declaration penalties or, worse, disguise the existence of fraud. For these reasons, accuracy of coding should be vigorously promoted through proper staff training and instruction, the use of validation checks, regular review of suspense accounts, and monitoring of spending against budget.

46 The use of code books by local authorities to encourage the accuracy of coding at source, where it is more often than not performed by non-finance staff, is standard practice. Ideally, if this is not already the case, code books should be tailored to the needs of particular users so that, for example, an officer in the Social Services Department is not provided with details of codes in use by the Education Department and vice versa. This helps to eliminate unnecessary errors or, where they occur, at least to contain them within the correct service heading. The achievement of still greater accuracy at source may be possible through a process of educating defaulters in the use of correct codes every time they commit a miscoding error, rather than by simply correcting it. At one authority an annual target, monitored by senior management, has been set for accountants to reduce the number of coding corrections to less than 1% of all transactions processed in the year.

47 As a second line of defence against incorrect coding the pre-input manual verification of all codes entered at source has almost become a thing of the past. This is due to a combination of excessive cost – the process is heavily labour-intensive – and the increased availability of computerised financial systems which perform automatic validation checks on coding at the time of input. However, its abandonment should only be contemplated if there are compensating controls in place. These may take the form of sample checking of high-risk, high-value transactions or the use of error suspense accounts which automatically capture all transactions which carry a non-existent code or incompatible combination of correct codes (e.g. a Social Services main code connected to an Education cost centre code).

48 Suspense accounts need to be properly managed. This means allocating responsibility for clearing miscodes to a named individual, applying a prompt timetable and timescale for corrections to be made and monitoring performance to ensure there is no slippage against that timetable. Not only is there a risk that financial information will be incomplete if this not done but the task itself will become more difficult to complete – it is far easier to clear miscodes as they arise than to resolve them after a backlog has been allowed to develop. Poor management arrangements ought in any case to become quickly apparent if actual expenditure is being monitored regularly against the budget.

USING JOURNALS

49 The journal provides the means by which values can be transferred from one account heading to another. Its use facilitates the reallocation of balances from personal and holding accounts, the correction of coding errors and, in circumstances where there may be no other feasible method available, the input of prime financial data. By its very nature, if not managed properly, the journal poses an inherent control risk. This may be much higher in the case of direct on-line input where the audit trail of the type provided by ‘paper’ journals does not exist. In the majority of cases the risk can be minimised (Box C).

50 It is rare that local authorities operate any form of independent check on journal transfers, even where these may be of high value. Achieving better control could be as straightforward as designating a Senior Finance Officer, say a Chief Accountant, to vet and authorise journals before input or, after input, to review journal entries appearing on the system update log produced by the computer. A particularly effective alternative is the
CONTROLLING THE USE OF JOURNALS

- The ability to effect journal transfers should be restricted to a small number of named individuals
- Detailed instructions on their completion should be made available
- Pre-or-post input checks should be performed to vet the need for, and accuracy of, transfers and to verify the credentials of the originator
- Journals should be uniquely referenced for identification and, in the case of paper documents, ease of retrieval, and to enable supporting documentation and transaction details to be traced to their source
- They should contain enough clear narrative to identify their purpose

requirement for journals to be coded and countersigned by the ‘debit receiving’ budget holder prior to processing. This ensures that the purpose of each journal transfer is independently verified and helps to minimise any unnecessary coding errors which may distort budget comparisons.

MANAGING CONTROL A/CS

51 Control accounts provide the means to carry out a continuous arithmetical check that the general ledger is in balance and, if not, to help identify where and how errors have occurred. They are usually integrated into the general ledger system as part of the double-entry-book keeping procedure and, if reconciled on a regular basis, can thus provide immediate assurance that the financial information which it contains is complete and accurate. However, the failure to grasp the importance of managing control accounts properly is a depressingly recurrent problem.

52 Authorities often fail to establish a formal framework of responsibility for the administration of control accounts. Surprisingly few are able readily to provide details of all of the control accounts which they operate. Also there is little monitoring of performance to ensure that staff are doing the job properly. There is a need in many instances for the imposition of a more stringent regime which specifies who is responsible for reconciling each control account, how often and by when. This should be administered by a senior manager.

53 All control accounts should be identified and scheduled before responsible officers are nominated. Only when this has been done and an assessment made of the work involved will it be possible to allocate responsibility to appropriate individuals. Ideally, they should possess experience of general ledger operation as well as being technically competent. Selection of officers is not a task to be taken lightly – there is evidence that many reconciliations are performed by, in some cases unqualified, junior staff who do not always appreciate the wider significance of what they are being asked to do. Also it is important that the principles of internal check are applied when allocating responsibilities.

54 The scheduling of the timetable for completion of reconciliations is crucial to successful management. Control accounts lose their effectiveness, if they are not reconciled at regular and frequent intervals. The frequency should be set following an assessment of materiality. Reconciliations of major control accounts through which significant sums and numbers of transactions are processed – cash, debtors, creditors, salaries and wages – should be completed and reviewed before the commencement of the next cycle.

'... the failure to grasp the importance of managing control accounts properly is a depressingly recurrent problem...'

55 The importance of regular completion of major reconciliations, particularly the bank reconciliation, cannot be overstated. Apart from the potential for serious loss of financial control if the work is performed less often, the task then becomes more onerous because a greater number of transactions has to be vetted and sifted to identify errors requiring correction. Subsequently any carry-over of unresolved queries or balances from one reconciliation to another may raise doubts about the integrity of the general ledger in the longer term. A monitoring procedure should exist therefore to highlight such weaknesses before they develop into something more serious.

56 An example of a high-level monitoring arrangement is provided by the situation report prepared monthly for the Chief Financial Officer at one authority (Exhibit 4, overleaf). At a lower level, every person responsible should be expected to produce a reconciliation for review by their immediate
A RECONCILIATION MONITORING REPORT

A full list of reconciliations should be maintained, monitored on a regular basis and the position reported to senior management.

<table>
<thead>
<tr>
<th>RECONCILIATIONS – LATEST SITUATION REPORT</th>
<th>10 October 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>RO</td>
<td>FREQUENCY</td>
</tr>
<tr>
<td>FMS integrity</td>
<td>KM</td>
</tr>
<tr>
<td>Bank balances</td>
<td>NA</td>
</tr>
<tr>
<td>Cash receipts</td>
<td>HP</td>
</tr>
<tr>
<td>Creditors</td>
<td>JO</td>
</tr>
<tr>
<td>Underc/overs</td>
<td>MC</td>
</tr>
<tr>
<td>Bank rec</td>
<td>NA</td>
</tr>
<tr>
<td>Temp. loans</td>
<td>NA</td>
</tr>
<tr>
<td>Payroll</td>
<td>DP</td>
</tr>
<tr>
<td>Cash suspense</td>
<td>NA</td>
</tr>
<tr>
<td>Returned cheques</td>
<td>NA</td>
</tr>
<tr>
<td>PO Giro</td>
<td>JH</td>
</tr>
<tr>
<td>Housing rents</td>
<td>WS</td>
</tr>
<tr>
<td>Rent rebates</td>
<td>JL</td>
</tr>
<tr>
<td>Rent allowances</td>
<td>JL</td>
</tr>
<tr>
<td>Council tax</td>
<td>NM</td>
</tr>
<tr>
<td>Council tax benefit</td>
<td>JL</td>
</tr>
<tr>
<td>NNDR</td>
<td>NM</td>
</tr>
<tr>
<td>Debtors</td>
<td>AL</td>
</tr>
<tr>
<td>Mortgages</td>
<td>AL</td>
</tr>
<tr>
<td>Car Loans</td>
<td>JT</td>
</tr>
<tr>
<td>Land charges/deposits</td>
<td>PG</td>
</tr>
<tr>
<td>Leased cars</td>
<td>JT</td>
</tr>
<tr>
<td>Cash imprests</td>
<td>JT</td>
</tr>
<tr>
<td>Bonds</td>
<td>JT</td>
</tr>
<tr>
<td>Sale of council houses</td>
<td>JT</td>
</tr>
<tr>
<td>Cash wages suspense</td>
<td>MC</td>
</tr>
</tbody>
</table>

Source: Reading B.C.

superior so that any balancing items can be queried, if necessary, and validated. This is particularly important if the reviewee is new to the job or otherwise not fully conversant with reconciliation procedures. Evidence of review should be provided by the superior countersigning the reconciliation.

RECONCILING THE BANK A/C

57 The bank reconciliation is the key control account reconciliation. It proves that all cash transactions have been accounted for in the general ledger and provides powerful assurance that there has been no fraudulent manipulation of funds or that material errors have not occurred during the processing of input data. To perform this function properly, it must be reconciled on a regular basis. However, at some authorities it is far from certain that the bank reconciliation serves its intended purpose.

58 Formats tend to differ widely and are often aimed at agreeing transaction totals between other control accounts and feeder systems rather than agreeing the cash control account balance to the bank statement balance. This confusion is compounded in many instances by the use of numerous bank accounts, each the subject of a separate reconciliation performed by a different person. As a result the process can be fragmented so that the overall position is not immediately clear, particularly when the reconciliations are performed by junior staff who do not fully appreciate their purpose and importance.

59 It is also often the case that working papers are complex, bordering on indecipherable, to those not familiar with local procedures and terminology (Exhibit 5). Generally speaking there is a need for more clarification of bank reconciliation procedures. Use of preprinted, standardised forms to simplify the format of working papers would secure greater understanding of reconciliations on the part of all involved, auditors included.
At present the formats of bank reconciliations can be extremely difficult to understand - but there are also examples of good practice.

Source: Standardised form: Derby City Council

4. PRODUCTION OF ANNUAL ACCOUNTS

60 In comparison not just with the private sector but also with other public sector bodies and with their counterparts in Scotland, local authorities in England and Wales are placed under less pressure to produce their annual accounts promptly (Table 1, overleaf). This is not to deny the steady reduction, which the Commission welcomes, in the number of authorities which fail to observe the statutory deadline for publication of their annual accounts. Nor does it detract from the creditable performance of those with early publication dates. It reflects instead the generous leeway allowed under the Accounts and Audit Regulations which govern the closure and publication of accounts. This provides many with an excuse for poor performance.

61 The additional pressure on major companies to produce their annual accounts promptly comes from having to satisfy the 'City', shareholders and investors as to their continuing viability and profitability. Health authorities, development corporations and government trading funds are required to present their annual accounts before the summer recess of Parliament in August. There are no corresponding external forces at work in local government.

'... the current statutory framework regarding production of annual accounts is inadequate and needs to be made more stringent...'

62 At a time when attention is being focused on making public bodies more accountable for the cost and quality of the services they deliver, the current statutory framework regarding production of annual accounts is inadequate and needs to be made more stringent.
<table>
<thead>
<tr>
<th>Description</th>
<th>Date</th>
</tr>
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<td>30 June*</td>
</tr>
<tr>
<td>Housing Association</td>
<td>30 June*</td>
</tr>
<tr>
<td>Development Corporation</td>
<td>30 June*</td>
</tr>
<tr>
<td>Government Trading Fund</td>
<td>30 June*</td>
</tr>
<tr>
<td>Health Authority/Trust</td>
<td>30 June</td>
</tr>
<tr>
<td>Local Authority –</td>
<td></td>
</tr>
<tr>
<td>– Scotland</td>
<td>31 August</td>
</tr>
<tr>
<td>– England and Wales</td>
<td>30 September</td>
</tr>
</tbody>
</table>

*Typical internal target date*

Prompt production of annual accounts by local authorities should be the norm rather than the exception – it shows that the responsibility to account properly for the use of public funds is taken seriously, provides early confirmation of the operation of sound financial systems and procedures, and demonstrates a commitment to timely public disclosure of relevant financial information.

63 To help the drive towards achieving greater accountability in local government, the Commission will be lobbying strongly for the current Accounts and Audit Regulations to be strengthened in a number of areas. It will also be calling for a simpler and more effective procedure for dealing with non-compliance, perhaps along the lines of the automatic fine system which applies under the Companies Acts legislation.

64 Authorities differ widely in their interpretation of the requirement in the Regulations to `balance the accounts. Some see this as ensuring that the general ledger is in balance at the year end, others as producing a draft set of accounts without accompanying notes. The Commission contends that it should be defined more explicitly to mean the production, ready for audit, of a set of financial statements in the required format.

65 The statutory deadlines regarding the balancing of accounts and publication of audited financial statements should be brought forward. The Commission supports fully the stance taken by CIPFA in its Statement on Financial Reporting and considers this to be a good basis for bringing about an improvement. However, the recommendation that local authority Chief Financial Officers should use their best endeavours to publish audited financial statements within seven months of the end of the reporting period should only be viewed as the starting point. The best performing authorities are able to close their accounts and publish audited financial statements within four months of the year end. It is to this standard that the Commission wishes all authorities to aspire. In due course, it would see a move to a six-month statutory dead-line as a reasonable progression.

66 Local authorities should assume greater ownership of their annual accounts. Chief Financial Officers are already required to sign the statements of accounts but should also be obliged to certify that they present fairly the authority’s financial position. In addition, because the published statements of account represent the financial consequences of an authority’s policies, they should be formally endorsed by the Chairperson.

67 If these additional requirements are introduced, some local authorities will need to become more concerned with the process of publishing financial statements. The key success factors for the achievement of prompt and accurate financial reporting are:

- a commitment at the highest level of management to ensuring early closure
- good planning to ensure that the published statements of account are capable of being produced promptly
- sound procedures for ensuring that all relevant transactions are recorded accurately in the accounts
- compliance with all statutory requirements and proper accounting practices.

**PLANNING AND SUPERVISING THE WORK**

68 No process will work well unless there is a clear target for completion and an adequate framework for achieving it. This requires good planning, translated into a well constructed programme of work (Box D). The first step towards setting an earlier but real-

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**Box D**

**A GOOD CLOSURE PROGRAMME**

- specifies and references each and every task requiring completion
- allocates responsibility for completion of each task to a named individual
- sets deadlines for completion of each task or series of tasks based on a critical path towards closure
istic and achievable deadline for closure is the implementation of a regular 'post-mortem' review process. A critical review of recent performance should help to isolate those tasks where unnecessary delay or unforeseen problems have occurred previously so that the process may be adapted to avoid these in the future. At authorities where this approach is followed, the advice and input of the external auditor are regularly taken into account when drawing up the programme.

69 Identifying and slotting the individual tasks into a programme of work which fits the time available requires some form of critical path analysis. This should take account of the various interlinking sub-processes which make up the whole so that the order in which tasks need to be carried out can be established. Only by also attaching deadlines to the completion of each task or sub-process and making sure that these are adhered to will the overall deadline be met. Responsibility for tasks can then be allocated to the individuals who are best placed in terms of relevant experience and expertise to secure completion according to the agreed timetable.

70 The format of the written programme and the timing of its distribution will influence the prospects for prompt closure. The use of instructions which are tailored to the responsible individual, rather than the universal end-of-year memorandum which has traditionally been used, is an improvement particularly welcomed by non-finance staff. The better examples avoid the use of jargon.

71 To further assist their managers in understanding what procedures should be followed and what information is required, many private sector organisations prepare year-end reporting packs containing pre-printed schedules for completion. These perform the important function of ensuring that there is uniform and consistent treatment of financial transactions throughout the organisation. The alternatives are to use some form of reference manual or a standard set of practice notes with a section on annual accounts procedures, which can be supplemented annually if necessary by the issue of specific guidance to named individuals on the tasks they need to complete. A mid-February distribution of the closure programme and accompanying instructions should then provide staff with ample time in which to carry out the necessary groundwork and to iron out any potential difficulties which may have been overlooked.

72 If there is an important message as regards planning for early closure, it is that any work of a preparatory nature completed during the year will repay the investment in time. Regular and prompt completion of control account, reconciliations – in particular the bank reconciliation – provides assurance that the closure process can proceed swiftly and unhindered by doubts about the accuracy of information contained in the general ledger. The same is true of error suspense accounts – there is a world of difference between having to clear the latest crop of postings and having to sift thousands of vouchers to identify and correct an error or miscoding which occurred up to twelve months ago. To save time, allocations from personal or holding accounts should also be performed throughout rather than just at the end of the year.

73 Ideally, providing year-end valuations of stock and work in progress should be an extension of routines carried out on a regular basis throughout the year. However, if rolling stock-takes or valuations are not a feature of these routines, a compromise solution to speeding up the process is to carry out the annual stocktake or valuation at the end of February and then update the figures for March transactions. This has the advantage of allowing adequate time for material queries to be resolved whilst not holding up the closure process.

74 At an even more basic level, arrangements should be made to ensure that the closure process is adequately resourced in terms of staff and computer support – staff shortages and problems with computer output are frequently quoted as reasons for late closure. Determining the level, type and timing of input of resources should follow on from the 'post mortem' review and critical path analysis. However, even the best laid plans sometimes go wrong and should be covered by contingency arrangements to bring in additional staff or to update computer information more frequently.

75 Good planning and preparation will amount to nothing unless the closure programme is driven towards successful completion by a supervising officer charged with ultimate responsibility for producing the published statement of accounts. The more senior the person – at one authority with an enviable record of achieving prompt closure, it is the Assistant Di-
rector of Finance - the more credibility will be attached to the importance of closing the accounts promptly. It is likely also that such a person will have the necessary technical knowledge of statutory and professional requirements, as well as experience of close-down procedures.

76 The main role of the supervising officer, over whose other duties close-down should take precedence, will be to monitor progress and to take such action as is required to keep the programme on track. However, the Chief Financial Officer will need at least to receive regular feedback on the way things are going if any future obligation to certify that the accounts present fairly the authority's financial position is to be properly met.

FINALISING AND PUBLISHING THE ACCOUNTS

77 In order that flee annual accounts can receive an unqualified opinion, they must `present fairly' the authority's financial transactions for the year and its financial position at the year end. Translated into practice, this means they must be complete, materially accurate and comply with all statutory requirements and proper accounting practices. These three criteria determine flee stages of the closure process (Exhibit 6). Whilst it may be possible to integrate elements of the work involved so that there is some overlap between stages, the need to ensure completeness before starting anything else tends to be an overriding factor at most authorities.

Exhibit 6
THE CLOSURE PROCESS
There are three key stages

- Completeness...
  - Is about ensuring that all transactions relating to the year of account have been accounted for.
  - E.g. reversing and processing year end accruals.
  - End of April

- Accuracy...
  - Is about ensuring that all transactions are properly reflected in the accounts.
  - E.g. reallocating holding accounts, processing inter account transfers.
  - End of June

- Compliance...
  - Is about ensuring that the published statement of accounts complies with all statutory requirements and proper accounting practices.
  - I.e. finalising the accounts in the correct format.
  - End of July

78 Companies are able by and large to finish the first stage promptly, within a week in some cases, because their monthly accounts are routinely converted to an income and expenditure basis – production of the annual accounts is merely an extension of this process. In comparison the timescale for completion of the one-off, end-of-year manual conversion or accruals procedure tends at most authorities to be lengthy; anything up to three months. This builds in unnecessary delay right at flee start of the process since there is little incentive to commence the accuracy stage if all material transactions have not yet been accounted for.

79 Speeding up the accruals process is essential if earlier closure of the account is to be achieved. Without the benefit of similar computer systems to those operated by companies, this means adopting reasonable measures to curtail the process. The options are simply to compress the period during which automatic and manual accruals are processed and/or to set a higher de minimis limit for the amounts to be accrued, thus reducing the number of transactions involved. It should be possible then to establish relatively quickly the material amounts due and payable and to make a general provision based on past experience for the rest. In this context, less than 100% accuracy is acceptable provided the likely total of any omissions is not material.

80 One authority operates a scheme which sets deadlines at the end of the third week in March for the payment of invoices relating to the year of account and the end of the first week in April for the input of manual creditors' listings. This works to the satisfaction of the external auditor, proving that private sector levels of performance are possible in local government. However, unlike companies, few authorities set de minimis limits above £200.

81 It is acknowledged that attempting to move too quickly in changing accrual policy could be counter-productive. A general tightening up of the accrual procedure through greater use of de minimis limits and confession of the timetable would be better implemented over a period of time so that staff can adapt gradually to tighter timetables and ensure that the resulting change in accounting practice has no material effect on the accounts. Ultimately, a month should be sufficient for completing the work.

Source: Audit Commission
The second stage – finalising the accounts and ensuring that they are accurately stated – is the most labour intensive in terms of accounting effort. Normally it is not feasible to start this work until it has been established that all material transactions relating to the year of account have been recorded in the general ledger. Making greater use of outturn estimates, for example in the allocation of holding accounts, is one way in which this hurdle can be overcome. The process, once started, could also be accelerated at many authorities by following the suggestions outlined in Box E. Closure of the ‘old year’ in the general ledger should be possible, and at the best authorities is achieved, by the end of June.

**Box F**

**SPEEDING UP THE ACCURACY STAGE OF THE CLOSURE PROCESS**

- tighter control should be exercised over the operation of the general ledger during close-down so as to avoid the continual revision to figures which can arise when journal transfers criss-cross between account heads in an uncontrolled way
- The timing of decisions regarding capital financing and transfers to and from reserves and provisions should dovetail with the closure programme
- Figures should be regularly and critically reviewed during close-down to establish their reasonableness

Having completed the hard work of balancing the ledger, the number of authorities which then take an inordinate amount of time to publish their accounts in the required format is unacceptably high – further delays of three to four months are typical. In many cases this is due to the process being driven entirely towards closure of the ledger and reporting the outturn to Members rather than towards publication of statutory financial statements, but there are other reasons.

Unfamiliarity or lack of adequate concern with accounting requirements, as set out in CIPFA's Code of Practice on Local Authority Accounting, results in time being wasted reworking and compiling figures in the correct format. Also the time required for printing and proof-reading is often not treated as an integral element of the critical path analysis. Where the statements of account are incorporated into the authority's annual report, delays are common because responsibility for its compilation rests with non-finance staff who do not appreciate the importance of prompt publication. Such delays are inexcusable. Good practice authorities adopt an end of July deadline for publication of their accounts, aiming to present Members with final outturn figures in ‘glossy’ format. This imposes a tight discipline on the accounts closure process which other authorities would do well to follow.

The final area of improvement concerns documentation of the process. Auditors of large private sector organisations would be unable to give an early audit opinion if, in support of the figures contained in the annual accounts, they did not receive a pack of fully cross-referenced, pro-forma schedules which had been checked and initialled as correct by the Chief Financial Officer, and a spreadsheet analysis or audit trail of the adjustments to the trial balance. Such levels of sophistication are rare in local government and the standard of annual accounts working papers is generally poor, often leading to lengthy delays in completing audits. Receipt of better-quality documentation could improve the effectiveness of external audit effort.

If they are to be satisfied that their authority's financial records are complete and accurate, Chief Financial Officers must establish minimum standards for the production, format, content and clarity of working papers and introduce adequate monitoring arrangements to ensure that these standards are properly maintained. For example, the appointed supervising officer should review working papers to see that they are relevant, accurately stated and properly referenced.

**THE WAY FORWARD**

In conclusion, this Management Paper draws attention to the challenges facing local government and to the problems that change can create. It emphasises the importance of regular financial accounts in such circumstances and sets out what can be done to raise standards in order to off-set potential weaknesses in financial control. The role of each of the main contributors to this process is covered in the action plan overleaf. Given the necessary degree of commitment and co-operation by all the parties involved there is no reason why the improvements outlined in the Paper should not be successfully implemented.
ACTION PLAN FOR RAISING STANDARDS

LOCAL AUTHORITIES NEED TO:

• link managerial and financial responsibilities within a flexible control framework, introduce stability into budgets through the use of longer-term planning and review base budgets regularly to ensure a proper match of resources to policies

• set more sensible virement limits, provide incentives for budget-holders to manage well, and use a consistent format for the reporting of budgetary performance, particularly to Members

• enhance the accuracy of financial information through greater use of purchase ledger and commitment accounting systems, and ensure it is up to date, readily accessible and relevant to the needs of managers

• strengthen arrangements for ensuring the accuracy of financial coding, recognise the inherent risk of using journals and adopt stronger procedures for their control

• improve the management of control accounts by allocating responsibilities setting timetables, monitoring completion and, in the case of bank reconciliations, simplifying procedures and making the documentation more intelligible

• commit themselves to achieving prompter publication of annual accounts by planning more thoroughly for closure and adopting speedier procedures for closing and publishing the accounts.

THE AUDIT COMMISSION IS TO:

• publish jointly with CIPFA a management handbook on core financial accounting procedures, encourage auditors to give greater emphasis to regularity issues as part of their audit by issuing them with an audit guide and lobby the Government to strengthen the current statutory provisions regarding annual accounts.

EXTERNAL AUDITORS ARE EXPECTED TO:

• set aside time within their audit plans to carry out an overview of authorities’ current arrangements, apply the contents of the audit guide where these are considered relevant in the light of the results of the overview, and report to authorities with appropriate recommendations where scope for improvement is indicated.

THE GOVERNMENT SHOULD:

• review the case for a more stringent definition under the Accounts and Audit Regulations of the requirements for closing and publishing the annual accounts.
**The Annual Cycle**

- **December**: Final year 2 budget proposals are submitted to full Council for decision. Members consult over the various draft proposals for year 2 budget.

- **January**: Council sets annual budget and capital programme. Year 2 policy and spending proposals are drawn up by Chief Officers in accordance with strategy.

- **February**: Council publishes agreed long-term strategy for years 1 to 4. The Management Team issues a discussion draft of the strategy for years 2 to 5.

- **March**: Groups produce alternative year 2 budget proposals for discussion. The Management Team looks at the scenario for years 2 to 5 and identifies major service issues.

- **April**: Political Groups review year 2 proposals and assess their implications for the budget. Policy Group reaches a consensus about the likely overall picture for years 2 to 5.

- **May**: The Annual Cycle starts. The Management Team looks at the scenario for years 2 to 5 and identifies major service issues.

- **June**: Policy Group reaches a consensus about the likely overall picture for years 2 to 5.

- **July**: Chief Officers produce their policy and expenditure proposals for year 5.

- **August**: Council publishes agreed long-term strategy for years 1 to 4. The Management Team issues a discussion draft of the strategy for years 2 to 5.

- **September**: Council sets annual budget and capital programme. Year 2 policy and spending proposals are drawn up by Chief Officers in accordance with strategy.

- **October**: Political Groups review year 2 proposals and assess their implications for the budget. Policy Group reaches a consensus about the likely overall picture for years 2 to 5.

- **November**: Members consult over the various draft proposals for year 2 budget. The Management Team looks at the scenario for years 2 to 5 and identifies major service issues.

- **December**: Final year 2 budget proposals are submitted to full Council for decision. Members consult over the various draft proposals for year 2 budget.
As you can see from October's financial report, we are on target to achieve our projected turnover and profit for the year.

I see October's tab has just arrived.

November 5

Barzehster Business Services Unit

November 15

Barzehster Social Services
<table>
<thead>
<tr>
<th>Week/Year: 1892</th>
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<table>
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<tr>
<th><strong>Mark</strong></th>
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<tr>
<td><strong>£</strong></td>
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**Notes**:
- Amounts in parentheses indicate adjustments.
- All amounts are in £ (Pounds).