



TOPICAL BRIEFING-
EARLY CLOSING

Introduction

Within the current emphasis on continuous improvement in financial management in central government, early or faster closing is an important focus for better performance. Moreover, a number of key influences are now coming together that make it imperative that Government organisations review their arrangements for producing financial statements and, if necessary, make urgent improvements in their performance.

This CIPFA briefing aims to provide an overview of the issues around early closing and - more importantly - to give the reader in central government some good practice advice derived from CIPFA's own work with a range of different organisations in the public sector. It is intended not to duplicate but to complement the key Treasury and NAO documents *Faster Closing: Managing Resources and Ready, Steady, Go: Faster Closing* and can be read together with those documents.

Many organisations will find that in the current financial climate they will be unable to divert either more money or more staff to early closing and some will find little scope for making existing staff - already fully stretched - work harder. This briefing suggests that the way to successful early closing begins with stepping back to challenge accepted ways of thinking and practice around the closing process.

Much of the material in this note is based on guidance, aimed originally at local authorities but transferable to all public sector accounts, set out in CIPFA's publication "Early Closing Time" - a CIPFA product recommended by the Audit Commission in its recent discussion paper "World-class Financial Management". Readers looking for more detailed guidance are referred to that text, available from the CIPFA shop at: <http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/> "Early Closing Time" also contains a number of examples and sample memorandums and an extract from CIPFA's Standard of Professional Practice: Financial Reporting.

Timing

Historically, departmental accounts were laid before Parliament (or where relevant the Scottish Parliament, Welsh or Northern

Ireland Assemblies) early in the calendar year following the period to which they relate. Under the 'faster closing' initiative, reporting timetables were brought forward. Departments will have individual plans made, in consultation with Treasury and the NAO, but overall, the aim is that resource accounts for the year 2005/06 should be signed, certified and laid before Parliament by the summer recess (25 July 2006). For many organisations, this represents a significantly earlier closing process, for some by as much as three months.

Whole of Government Accounts

The implementation of Whole of Government Accounts requires prompt and accurate departmental returns

Reporting Content

In addition to the timetable changes for closing, there are also changes to what in practice "closing" is to comprise.

The Treasury's Financial Reporting Manual, (*FReM*) published (and updated annually) by the Treasury, is the authoritative statement on how transactions and other events should be treated in resource accounts. It applies across the United Kingdom from 2005-06, replacing the separate guidance for departments, Scottish & NI bodies, non-departmental public bodies and trading funds, putting all of central government accounting on the same footing.

The Manual sets out the format of the primary statements and supporting notes and provides guidance on the presentation of the annual report and accounts and the disclosures required in them, outlines the publication and audit cycle and provides detailed guidance on the content of the annual report.

The Annual Report and Accounts include:

- an annual report (see *FReM* for detailed guidance on the content but it should contain the matters normally dealt with in a Directors' report in company accounts, together with an operating and financial review (OFR); and a remuneration report
- a statement of the Accounting Officer's responsibilities
- a statement on internal control
- the audit opinions and report.

Early Closing: the Benefits

Early Closing provides evidence of the operation of sound financial systems and procedures. Properly implemented, techniques to achieve early closing are not an end in themselves but will bring improved financial information to decision makers throughout the year. The benefits of faster closing can be summarised as follows:

- the relevance of reliable financial information for users is greater the earlier it is available - external readers can make prompt, informed and effective decisions; and internal management can be better advised in planning for the future
- good governance requires assurance that weaknesses, errors or omissions in financial systems have been identified and corrected at the earliest opportunity
- improvements in financial procedures and systems necessary for earlier closure can have a much wider benefit for the administration of the organisation
- the production of financial statements with an unqualified audit report provides assurance of good financial governance
- early compilation of the financial statements allows board members and officials to concentrate on current year financial matters and future plans - with confidence that assumptions about brought forward resources are secure
- early and effective publication of the statement of accounts is being promoted as a key indicator of good financial management.

Barriers and Obstacles

It is important, in implementing early closing, to be aware of the more frequent barriers and obstacles encountered in Central Government. These are dealt with in more detail in the Treasury document *Faster Closing: Managing Resources* but to summarise they include:

- systems problems
- problems arising from the very size (big or small) and complexity of some government departments
- a residual over-emphasis on cash if resource accounting and budgeting has not been completely embraced, leading to

a tendency to focus properly on accruals adjustments only at the year-end

- insufficient priority either with senior management or more generally in timetabling faster accounts
- dependency on other organisations, e.g. executive agencies, before overall accounts can be produced
- unexpected results necessitating further work and subsequent adjustments.

Lessons from Success

CIPFA has examined a wide range of organisations, both in the private sector and in the public sector and including Central Government Departments. A good example of a central government body that has strong performance in closing down promptly is British Waterways. The organisation is split into one central and six regional offices, each of which has to prepare reporting pack for consolidation to fall UK GAAP, yet their accounts are ready for audit three weeks after the year-end.

From CIPFA's work, some key criteria for success can be distilled around strategic ownership, managing process, the practicalities and the role of the auditor. While the terminology in other sectors sometimes differs, the core processes will be essentially the same.

Achieving Early Closing: Securing Strategic Ownership

In CIPFA's experience, the critical success factor identified in every study of prompt production of accounts is the need for commitment at the highest levels to achieving the objective. The best performing authorities have a drive for early closure that starts with senior management determined to achieve an early and satisfactory result. The "tone from the top" is critical to creating the right culture.

This commitment can be generated in reaction to both internal and external influences – but if the organisation does not have it that then it will be impossible to make plans with the necessary degree of assurance or to rely on the co-operation of everyone.

GOOD PRACTICE: BRITISH WATERWAYS

The success of British Waterways at closing quickly can be attributed to the following key good practice factors:

- the management team and the non-executive directors are committed to good performance in this area and have high expectations
- the audit committee is very robust – they get involved in the process, ask probing questions of the chief executive and expect answers to be provided
- changes to accounting policies and new developments are scrutinised by the audit committee and auditors are consulted at an early stage
- the chief executive demonstrates real interest, thus ensuring that all staff are aware that this is a priority area
- the regional finance managers meet every couple of months, with final accounts and audit issues always on the agenda
- regular consolidated management accounts are prepared on an accruals basis within two weeks of the month end – these are analysed by management and submitted to the board and the audit committee for their review
- monthly monitoring is prepared in the same format as year-end reporting
- a detailed timetable for the process is drawn up with responsibility clearly allocated to named individuals
- deadlines are set with reference to previous experience, and dates are moved back when improvements are identified
- reporting lines are clear and manageable, with one regional finance manager in each region being responsible for communicating with the central team
- data from regional offices is submitted in standard reporting packs, enabling easy consolidation
- the central finance team visits regional offices, challenging the data in the packs and performing analytical review to ensure that it is complete and accurate
- the financial systems have been programmed to produce a number of standard reports which can be run off easily when required
- staff performance during the closure process is included in their performance appraisal – performance above expectations can lead to bonuses
- hard work and a willingness to work overtime at the year-end are expected from staff during the closedown period, with opportunities to take time off in lieu afterwards being made available
- regular training events are organised to keep staff up to date with new developments.

The best organisations:

- brief board members fully on their financial responsibilities and the role played by prompt financial statements
- get the accounts production process on the agenda that board and management team level
- obtain the support of other senior officials for accounts production objectives
- React positively to contributions towards achieving early closing by demonstrating contributions are valued – making early closing a priority, not an irritation
- take opportunities to promote the organisation's reputation through effective closedown procedures and prompt production
- explore opportunities for increasing the readership of the statement of accounts.

GOOD PRACTICE: NORTH AYRSHIRE COUNCIL

At North Ayrshire Council, the head of financial services sends a copy of the early closing timetable and notes guidance for the closure of the accounts to the chief executive, the corporate directors and the other senior executives, as well as to the heads of services. In his covering letter, he explicitly asks for their cooperation in ensuring that the final deadline is met, and he asks them to circulate the notes to their appropriate contacts. This is an effective means of ensuring that the accounts are on the agenda of the most senior members of staff, and that the message that people at the highest levels are interested in success is communicated to everyone involved.

Managing the Process

Having secured strategic ownership for early closing, there are a number of key elements critical to managing process itself. Clear allocation of role to responsibilities in relation to elements of the production process is vital in establishing responsibility for the tasks to be completed. The five categories of participant are: the board members, the finance director (or his/her deputy), the supervising official who has been assigned the operational responsibilities, the internal auditor and the external auditor. CIPFA has produced a *Standard of Professional Practice on Financial Reporting*. The key principles set out in the Standard are also relevant in central government:

- finance directors should take all reasonable steps to ensure that the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the organisation's financial transactions
- finance directors should take all reasonable steps to ensure that all financial reports are relevant, reliable and consistent and are compatible with the organisation's accounting and financial information systems

- finance directors should take all reasonable steps to ensure that the accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the organisation
- board members should observe and comply with the relevant statutory requirements and regulations, financial reporting standards, professional standards and directions from government departments.

Many organisations find that it is most effective for them to set out the critical dates and procedures in one main plan document.

GOOD PRACTICE – KEY ELEMENTS OF A PLAN USED BY SUFFOLK POLICE

Timing: the timetable starts well in advance of the year end, in December and holidays of key members of staff are written into the timetable

Clarity: the date and day of the week are set out clearly; responsibility is assigned for each task; key actions are highlighted in bold print

Communication with third parties: deadlines for requests for information are formalised by being included in the timetable (e.g. communications with the auditors, actuary, valuers etc); days for receipt of responses are indicated

Estimations: estimations are used to obtain data more quickly and the timetable includes actions for the review of estimations after the year-end

Review: frequent high-level review of progress against timetable is built into the timetable (monthly at first but on a weekly basis near the critical period)

Bringing forward year-end tasks: any procedures which can be done in advance are done and in advance; suspense accounts are reconciled fully at the end of February and weekly thereafter; automatic transactions to the general ledger stopped before the year-end.

The Practicalities

Even the best laid plans cannot secure a successful closedown unless the organisation has also made practical arrangements for producing the required figures and building them into the statement of accounts. The key practical steps that an organisation needs to take are:

- selecting the most suitable accounting policies and designing the presentation of the statement of accounts
- using estimates instead of actuals, where appropriate
- adopting good practice throughout the year – producing regular, eg monthly accounts on an accruals basis
- closing the ledger effectively and processing journals
- preparing in advance the year-end procedures training in mentoring staff.

GOOD PRACTICE EXAMPLE: CAMBRIDGE CITY COUNCIL

Cambridge City Council carried out an exercise on invoices processed at the end of the previous financial year. Examination showed that very few invoices had been processed after the 17th of the month but that there was an increase towards the very end.

As a consequence the closing date for processing prior year-end invoices was brought forward to 17 April. While this did make the payment section busier, there was not in practice a significant increase in the number of creditors being raised the year-end.

This simple change knocked a whole week of the closedown timetable.

It is important for the finance department to deliver the message throughout the organisation that any work of a preparatory nature completed during year will repay the investment in time and will go along way towards bringing about earlier closure of the accounts and ensuring that proper financial control is maintained. For Central

Government, this should tie in with and enhance RAB management accounts. One of the key features that enables any organisation to pull together their financial statements soon after a period end is having a good grasp of the financial position throughout the year. A reliable awareness of all accrued income and expenditure is not only essential in preparing accounts in a timely basis, but is also fundamental to effective financial control.

The Role of the Auditor

An audit opinion cannot be provided until necessary work has been carried out and the auditor will not be able to commit providing an opinion by particular date. However it should be possible to provide an indicative date, subject to no substantial matters arising during the course of the audit.

Appropriate liaison with the external auditor and closure process will make it less likely that there will be problems and disagreements later over the content, format of the accounts and a plea audit will run more smoothly. It is important that the activities of the external auditor or was in the script the production plan.

As mentioned earlier, it is important that working papers to support the accounts are prepared throughout the year and not prepared in a rush towards the year end. It is important too that those working papers are both appropriate and sufficient for the auditor and the auditors views should be made plain in advance of the audit, preferably at the organisations planning stage, which supporting documentation is required and what format it should follow. Early closure will not necessarily be followed by an early audit opinion if these requirements are not met. Specific order to requirements may vary the working papers should be suitably referenced and should be readily retrievable.

The preparation of the accounts is not a wholly precise science and opportunities exist differences of opinion between the organisation and the auditor about the presentation. The potential impact of these differences on the accounts production process can be lessened by ensuring that:

- matters on which there is agreement to confirm before the accounts are prepared
- areas where there may be disagreement or identified as soon as possible, by organisations and auditors providing each

other with early warnings when they come across new issues

- sharing knowledge and experience
- agreeing on a protocol for submission of queries to the auditor and stated likely response periods
- there is a process for referring potential disagreements to more senior staff if they are not resolvable promptly and the protocol

Conclusion

The prompt production of the accounts is achievable provided that there is an awareness of the importance of the financial statements, the will to perform, effective planning and above all the commitment and dedication from senior management to make the necessary resources available and to enforce critical deadlines.

A suggested checklist for finance staff is set out in Appendix One and the implications for staff training in Appendix Two.

References

Faster Closing: Managing Resources, published by HM Treasury (downloadable from the Treasury web site)

Ready, Steady, Go: Faster Closing, published by the National Audit Office (downloadable from the NAO website).

Early Closing Time: A Good Practice Guide to the Prompt Closure of Local Authority Accounts in England and Wales published by CIPFA (2004)

World-class Financial Management: a discussion paper, published by the Audit Commission, (2005)

FreM, the Treasury's *Financial Reporting Manual* (also downloadable from the Treasury web site).

GOOD PRACTICE: THE BEST ORGANISATIONS WILL:

- discuss significant technical developments with their auditors at the earliest opportunity
- obtain views from their auditors prior to implementing any changes
- take account of matters raised by auditors in the prior year in planning the closure process
- discuss proposed estimation techniques to ensure that they will be acceptable to auditors
- understand the type of supporting documentation the auditors will be looking for and plan to integrate preparation of this into the closedown guidance
- ensure that working papers are prepared in reference to such a way that they will be easily followed by auditors with minimal need for reworking
- agree expected deadlines for submission of information on receipt of responses on both sides
- write actions concerning auditors into closedown timetable
- prepare an outline of the statement of accounts and submit it to their auditors for comment well in advance of compiling figures that will populate it
- have sound arrangements for being advised of and resolving audit issues as they arise

CHECKLIST FOR FINANCE STAFF IN CENTRAL GOVERNMENT

Task	Comments
Liaison with Board taking place?	Need to cover production and any major matters arising
Audit Committee engaged with?	This should be done at the outset of the Accounts production process to ensure Audit Committee support and direction
Liaison with senior management taking place	Need to secure their co-operation
Named manager responsible for operational aspects?	Does he/she have the necessary technical & management skills?
Sufficient IT, staff, accommodation resources available?	
Are the rights of access to information adequate?	May need explanations or information from other parts of the organisation
Detailed closedown programme approved?	Key target dates to be identified, bottlenecks pinpointed
Progress reports and meetings commissioned as required?	Need sufficient regularity and depth to facilitate judgement on whether intervention is required to resolve critical matters
Materiality clear?	Closing tasks should not be slowed down by doubts over materiality
Exceptional Reporting?	Parameters set? (eg, deadlines missed, disagreements with auditors)
Financial Systems robust?	Sufficiently reliable for final accounts purposes?
Technical Developments?	Need to keep up to date with any technical accounting developments
Arrangements in place with NAO?	Timely and regular?

Implications for staff training and mentoring

Ensuring that staff are properly trained in the practices and skills they need in order to play their part in closing the accounts is an essential issue to be addressed. Having things done properly at the first attempt is much more efficient than trying to resolve at a later date errors caused by lack of understanding. Two main areas of training are recommended:

- ...Training in the organisation's year-end procedures – this is vital for new staff but annual refresher sessions may also be required to remind existing staff of how to properly accomplish procedures carried out only once a year and avoid standards slipping.
- Training in new developments – here it will be necessary to identify the staff will be carrying out activities that will be affected by changes that may impact on the final accounts. The nature of the training itself will depend upon the nature of the developments concerned.

In order to manage the risks associated with closing, it is wise to ensure that the completion of any key task is not entirely dependent upon one individual. Therefore staff should be encouraged to train others to perform the tasks they do and where possible to alternate roles. Finally, clear procedure notes should be developed for closing tasks for on-the-job training.