



**FASTER CLOSING AND  
GOOD PRACTICE**

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## Introduction

In the Government's Spending Review and publication of the Gershon Review there is very much a continuing emphasis on the improvement agenda. In the arena of central government finance, the emphasis is on continuous improvement in financial management and faster closing is an important focus for better performance. This CIPFA briefing, the third in a new series of topical briefing notes, is intended to provide an overview of the issues around faster closing and - more importantly - to give the reader in central government some key good practice advice derived from CIPFA's own work with a range of different organisations in the public sector.

As most readers will be aware, the Treasury published *Faster Closing*, the mauve booklet in their *Managing Resources* series (downloadable from the Treasury web site) intended to help departments and the National Audit Office to work in partnership to achieve the faster closing of accounts. The National Audit Office has also published guidance for its clients: *Ready, Steady, Go: Faster Closing* (again, this is available from their website). This briefing from CIPFA is intended to complement the Treasury and NAO documents and should be read together with *Faster Closing: Managing Resources* and *Ready, Steady, Go: Faster Closing*.

## Faster closing: the aim

Government departments have set their own timetables in consultation with the National Audit Office and the Treasury. But the longer-term goal for all by 2005/06 is for resource accounts to be signed, certified and laid before Parliament before the Summer Recess.

## Why faster closing?

The reasons to take faster closing seriously are compelling. They go much further than the need to hit yet another target. Faster closing gives an indication to the world at large that the organisation takes seriously its responsibility to account properly for the use of public funds. Faster closing provides evidence of the operation of sound financial systems and procedures. It demonstrates the organisation's commitment to full and public disclosure of financial information. Properly implemented, techniques to achieve faster closing will

bring improved financial information to decision makers throughout the year.

On a practical level, faster closing:

- eases the problem of managing competing demands of staff resources;
- lessens the impact of old (prior) year work on the programming and performance of new (current) year work;
- means that key financial decisions can be taken earlier on the basis of known facts about the organisation's financial position
- fulfils the need for prompt and accurate departmental returns required in preparation for the Whole of Government Accounts

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 – knowing the real financial position of the authority and the outturns for particular services, 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, and the preparation and audit of financial statements provides a major opportunity for building this assurance about financial records
- improvements in financial procedures and systems necessary for earlier closure can have a much wider benefit for the administration of the authority
- the production of financial statements with an unqualified audit report provides everyone with assurance of good financial governance
- early compilation of the financial statements allows members and officers 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 obstacle

Barriers to faster closing in Central Government are many. These are dealt with in more detail in the Treasury document but to summarise they include:

- Systems problems
- Problems arising from the very size and complexity of some government departments
- Problems arising where resource accounting and budgeting has not been completely embraced, ie, if the emphasis during the year is still on cash, with 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
- on other organisations, e.g. executive agencies, before overall accounts can be produced
- Unexpected results necessitating further work and subsequent adjustments

## Learning from success: the experience of others

CIPFA has examined a wide range of organisations, including some in the private sector, Local Government, Central Government and the NHS. From this work, three key criteria for success can be distilled and a number of barriers to success can be identified.

The keys to successful faster closing that all these organisations have had in common are:

- Commitment at a high level – the audit committee and management must be committed to the accounts closure process and competitive targets must be set. League tables are used to drive improvement, and training on roles and responsibilities is provided.
- An effective partnership with auditors – there should be regular meetings to agree timetables and to identify and resolve issues at an early date
- In year monitoring - the year-end should be regarded as only a special sort of period end. Management accounts should be produced soon after each period end and a greater importance should be attached to meeting these deadlines. The financial position must be well monitored throughout the year, so that less work is needed at the year-end. Reconciliations and other

regular control procedures are regarded as vital elements of ongoing financial management.

The best performing organisations have a drive for earlier closure that starts with senior management/the Board recognising that their reputation and professional credibility depend on achieving an early and satisfactory result. If the organisation does not have this, then it will be impossible to make plans with the necessary degree of assurance that rely on the co-operation of everyone.

As with most motivations, there are carrots and there are sticks:

- Ensuring that board members/senior management are fully briefed on their responsibility for the publication of the statement of accounts and appreciate the importance of their role
- getting the statement of accounts on the agenda at the highest level and as a recurrent item
- Agreeing deliverables, setting target dates and monitoring achievement
- Being seen to react positively to the contributions of others and given feedback
- Securing reputational gains for the organisation through the statement of accounts
- Working to generate a readership so that the demand for prompt publication is maximised and job satisfaction is raised – the information in final accounts can be vital to decision making both within and outside the organisation, if it is timely, and the potential readership needs to know about them.

The NAO booklet gives examples of specific and individual aspects of good practice from Ofgem, the Met Office and the MOD.

In CIPFA's experience, a good example of a central government body that has strong performance in closing down promptly is British Waterways. This organisation is split into one central and six regional offices, each of which has to prepare a reporting pack for consolidation to full UK GAAP - yet their accounts are ready for audit three weeks after the year end.

### Good Practice: British Waterways

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

### Checklist for Finance Staff in Central Government

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

### 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

### 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.

### Central Government Panel

#### Briefing Notes

This Briefing Note is the third in a series from the Central Government Panel. Two earlier briefing notes are: *Whole of Government Accounts* and *Public Spending Review*. These briefings represent the first few in a planned series. Suggestions for further titles are welcomed and should be sent to Tom Lewis, Assistant Director, Central Government, CIPFA.  
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