Recommended Practice

Improving the Timeliness of Financial Reports (2008) (CAAFR)

Background. Financial reports are intended to meet the needs of decision makers. Accordingly, *timeliness* was identified as one of the *characteristics of information in financial reporting* in Concepts Statement No. 1 of the Governmental Accounting Standards Board (GASB), *Objectives of Financial Reporting*. To accomplish this objective, financial reports must be available in time to inform decision making. Therefore, financial reports should be published as soon as possible after the end of the reporting period.

Timely financial reporting cannot be reduced to a well managed "busy season," but rather requires careful, year-long planning and monitoring[1] (e.g., data processing, audit field work). Sometimes the need for timeliness has to be balanced against the need for reliability, which also was identified as one of the *characteristics of information in financial reporting* identified in GASB Concepts Statement No. 1. While governments certainly should not sacrifice reliability for timeliness, minor gains in precision ought not to be purchased at the price of indefinite delay (e.g., accounting estimates).

Legislative deadlines for submitting financial statements should be viewed as a minimum standard rather than as an ideal objective. The same holds true for the submission deadlines used by various award programs such as the GFOA's Certificate of Achievement for Excellence in Financial Reporting Program.

The additional cost of more timely financial reporting (e.g., additional staff and overtime) also needs to be considered. As always, the cost to be incurred should never exceed the benefits anticipated.

Recommendations. The Government Finance Officers Association (GFOA) makes the following recommendations about ways to improve the timeliness of financial reports for governmental entities.

1. ***Recording activity throughout the year***

a. *Transactions processing.* A government should undertake a process at least quarterly to ensure the ongoing completeness and accuracy of the data it collects. This process should include appropriate reconciliations to identify needed adjustments, as well as financial analysis of interim management reports to identify anomalous or incomplete data that may need to be corrected. This verification process should be particularly useful in identifying amounts that will need to be estimated as part of the annual verification process so that the data needed to make those estimates at year end can be collected throughout the period. Also, this process should facilitate the recording of certain items, for example, capital assets, throughout the year rather than after the fiscal year has ended.

[1] Such a year-long process can help a government avoid material auditor-identified adjustments that Statement on Auditing Standards No. 112, *Communicating Internal Control Matters Identified in an Audit*, would require to be reported as a significant deficiency or a material weakness. Refer to the GFOA recommended practice on *Mitigating the Negative Effects of Statement on Auditing Standards No. 112*.

b. *Accounting policies and procedures.* The government's documented accounting policies and procedures should 1) identify those items that may need to be estimated[2] and 2) set forth the specific steps (including significant assumptions) to be followed in preparing each different kind of estimate. The procedures should specifically address whether each of these items is to be handled during the year, as part of the initial year end closing process, or in the adjustment and analysis process immediately prior to the final year end closing process.

2. *Closing and financial statement preparation processing*

a. *The annual closing process.* The initial annual close normally occurs within a week to ten days following the end of the period. To avoid delays, all items related to budgetary expenditures (e.g., purchase orders) should be recorded by the end of the period (with exceptions being made only for highly unusual items like natural disasters and major information systems failures).

b. *Component Units.* When a government includes component units (either blended or discretely presented) as part of its financial reporting entity, there needs to be early and ongoing communication with those units to ensure that the government receives all of the information it needs to include them in its own report without delaying its issuance. Experience appears to demonstrate that there is no substitute for one or more face-to-face meetings for this purpose, although ongoing updates normally can be managed effectively by e-mail, telephone, or FAX.

c. *Unforeseen circumstances.* The financial report preparation process and the independent audit may identify items that could affect the amounts reported in the financial statements (e.g., lawsuits; legal or contractual violations that include a monetary penalty; instances of potential or actual fraud or abuse). Considerable time may be needed to definitively resolve such items. In such cases, the inherent uncertainty should not unduly delay the financial report preparation process and the independent audit. Accordingly, it often is better to proceed with the issuance of the financial statements based upon estimates, rather than to delay their issuance.

3. *Implementation of new accounting standards*

a. *Facilitating implementation of new accounting standards.* To ensure that accounting standards are implemented by their mandated effective date a government should monitor the issuance of final guidance from the Governmental Accounting Standards Board (GASB). Upon issuance of such guidance, a government should determine the fiscal year by which the guidance must be implemented and when steps to implement the guidance should be scheduled prior to and during the year of implementation as well as during the financial statement preparation process. To the extent practical, governments should attempt to implement the guidance by at least the period before implementation is mandated.

4. *Financial report format and distribution*

a. *Electronic distribution.* To save time and avoid potential delays, the government should initially distribute its financial report electronically (e.g., posting on website, e-mailing an electronic file, or mailing a CD-ROM).

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[2] Examples would include items related to derived tax revenues (e.g., sales and income taxes), uncollectible accounts, claims and judgments, the liability for landfill closure and postclosure care costs, and pollution remediation obligations.

5. ***Contracting for professional services***

a. *Audit procurement.*[3] The request for proposal (RFP) for the services of an independent auditor should specify a public release date for the financial statements.

b. *Contracts for professional services other than auditing.* RFPs for nonaudit services that have a bearing on the financial statements (e.g., actuarial services) should specify the public release date of the financial statements and expressly mention that those services need to be completed in time to allow the government to meet that deadline.

Approved by the GFOA's Executive Board, February 22, 2008.

[3] See GFOA's recommended practice on *Audit Procurement.*