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## Summary:

### Are agencies' interim reports necessary? – Benefit and costs

More than 60 government agencies are currently obliged to submit interim reports. The intention is for the interim reports to contribute to sound financial control in specific government agencies but also to support the government follow-up of financial activities. The Swedish NAO has audited whether the benefit of the agencies' interim reports is in parity with the cost in the form of time input and resources used for the agencies concerned to present the report and the Swedish National Audit Office to audit the reports.

### Audit background and purpose

In connection with the central government switch of fiscal year to a calendar year in 1997, the Government decided that agencies should submit half-yearly interim reports. The rationale was partly that the budget process and the state of public finances imposed higher requirements for monitoring and control. The interim reports were also to be important reference material for decision-making ahead of the Budget Bill and improve the quality of day-to-day accounting.

The agencies submit their interim reports to the Government on or before 15 August. An interim report must include an income statement and balance sheet, appropriation accounts and a forecast of the organisation's costs and revenues for the current financial year. Unlike the annual accounts, there are no requirements concerning notes, statement of cash flow or summary of material information. The Swedish National Audit Office conducts a review of the interim reports (except of the forecast), unlike the more comprehensive audit of annual reports.

The benefit and use of agencies' interim reports have been investigated and questioned several times since the Government introduced the requirement. The number of agencies obliged to submit an interim report has also decreased as a consequence of the benefit of interim reports having been called into question. The Swedish NAO has therefore examined the usefulness of the interim reports.

The data concerning the benefits of the interim reports and the costs of preparing them have been obtained from the agencies concerned by means of a telephone survey. All the

agencies responded. The Swedish NAO has also interviewed representatives of the Ministry of Finance and the National Financial Management Authority. The analysis of the benefit to the Swedish NAO of the interim reports is based on internal experience and competence and analysis of the costs based on data from the internal time reporting system.

## The Swedish National Audit Office's findings and conclusions

The overall conclusion of the Swedish NAO is that the benefit of the interim reports is limited and is not in parity with the input of resources. In particular the interim reports are of little significance for the agencies' internal control. Removing the interim report requirement would thus mean that resources can be better used both at the agencies in question and at the Swedish NAO. One potential risk is that the quality of financial reporting will deteriorate if the requirement is removed. However, the Swedish NAO assesses the risk as small, since the financial administration regulatory framework and requirements for good internal controls have been considerably tightened since the interim report requirement was introduced. The assessment is also confirmed by the responses of the agencies to the telephone survey.

### *The benefit to the Government of the interim reports is limited*

The Government's benefit from and use of the agencies' interim reports is limited. The Ministry of Finance uses some information from the interim reports as a basis for the Budget Bill. As regards other ministries, there are indications that their use of the interim reports is limited as well. For example, just under a quarter of the agencies indicate that the ministry concerned does not seem to be interested in the interim reports. This is well in line with the results of a study by the National Financial Management Authority in 2006. That showed that several ministries considered that the interim reports came at the wrong time and cannot be used as reference material in the Budget Bill. The National Financial Management Authority's study confirmed in turn the conclusion of a National Financial Management Authority report already in 2003; that the interim reports played a very small part as decision-making data in the budget process.

Currently the National Financial Management Authority draws some benefit from the interim reports, since they contribute to increasing the quality of financial reporting being reported to the National Accounts. The National Financial Management Authority has noted that the quality at the closing dates for the half-year and full year (quarters 2 and 4) is higher compared with quarters 1 and 3.

### *The agencies derive little benefit from the interim reports*

The agencies' benefit from the interim reports is very low, with the exception of the two public enterprises. Of the 60 agencies, 44 state that no benefit would be lost if the requirement was removed. Other agencies can see some benefit, but nevertheless on the whole consider that there are no risks associated with removing the interim report requirement.

Most agencies in the audit consider that good follow-up is important for internal control. However, they do not regard the interim report as central in this respect. The information and reference data for the internal follow-up are compiled on a continuous basis during the year in different forms, and are better adapted to the needs of the individual organisations than the interim reports. Several agencies believe that there may be a need to prepare a period closing more than just at the time of the annual report, but the timing for submission of the interim report is seen as problematical.

The interim report is compiled during the summer, which may entail practical difficulties in contacting external people, planning staff resources and reporting to the board.

### *The benefit to the Swedish NAO of the interim reports is small*

The Swedish NAO's review of the interim reports has a limited scope and depth in comparison with the audit of the agencies' annual reports. The assessment is that the review made by the Swedish NAO of the interim reports does not help the auditor to manage the risks of material misstatement in the annual reports that are identified. A summary of material misstatements in the interim reports shows that few misstatements have been reported in the past four years. An examination of the Swedish NAO's modified auditor's reports for the annual reports in the same period shows that the percentage of material misstatements in the annual reports is *greater* for the agencies that submit interim reports compared with the agencies that do not. The interim reports thus do not seem to contribute to fewer misstatements in the annual reports and thus more effective audit of the annual reports.

### *The benefit of the interim reports is small in relation to input of resources*

Preparing and reviewing an interim report entails relatively large costs. According to the Swedish NAO's calculations the estimated input by the agencies and the Swedish NAO is about 48 200 hours, or 28.8 full year equivalents. The total cost is estimated to be about SEK 21 million annually, excluding overhead costs. This should be compared with the limited benefit of the interim reports that the audit has shown.

## The Swedish NAO's recommendations to the Government

The Swedish NAO recommends that the Government removes the requirement to submit interim reports for the agencies that are currently subject to the requirement, with the exception of the public enterprises.

If the Government considers that some information in the interim reports continues to be necessary, the Government should draw up alternative and simpler rules for how agencies should prepare and provide this information.