

**Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety**

Report to:	<b>Audit Committee</b>
Date:	<b>19 December 2011</b>
Subject:	<b>Issues arising from the Closure of Accounts 2010-11</b>

**Summary:**

This report summarises the problems experienced in closing the accounts for the financial year 2010-11 and preparing the Statement of Accounts, and the action plan prepared in response to ensure these issues do not affect the preparation of the Statement of Accounts for 2011-12.

**Recommendation(s):**

The Executive Director - Resources and Community Safety asks the Audit Committee to note the content of the report and the action plan to be implemented for the closure of accounts for 2011-12.

**Background**

1. The Audit Committee approved the Council County's Statement of Accounts for 2010-11 at its meeting on 31 October and received the External Auditor's Annual Governance Report at the same meeting. This was one month after the statutory deadline for approving the Statement of Accounts.
2. Throughout the closure process the Audit Committee were made aware of the problems experienced by Mouchel in preparing the Statement of Accounts and supporting working papers. The result of these difficulties was the late preparation of the accounts and working papers which led to external audit deferring their work and ultimately the deadline being missed.
3. At the meeting on 31 October the Audit Committee asked officers and the Council's partner Mouchel to come back and report on the problems experienced and present the Committee with an action plan for the preparation of the accounts for 2011-12 to ensure these issues do not arise again.

4. The difficulties in the closure of accounts process are assessed to have arisen from the following key issues:

- Conversion to accounting under International Financial Reporting Standards (IFRS).

The Council struggled with the initial conversion of previous year's accounts (2009-10, plus 1 April 2009 opening balances), the work was more complex and took longer to complete than initially planned. Although this was a one off exercise there are lessons which should be considered for closedown, even in a normal year.

Actions:

*- Need to review the closure of accounts timetable to ensure this focuses on the key high risk areas / critical tasks for completion. Also need to ensure remedial action is taken quickly to address any problems which arise within the short close down period.*

*- Need to ensure that procedures are in place to address these new areas more efficiently in the 2011-12 close down and account preparation period.*

- Staffing and Technical Skills

The changes brought in by the new standards posed significant challenges for staff preparing the accounts. New processes were required to gather information and prepare the accounting entries. Particular difficulties were experienced in capital accounting and accounting for government grants and contributions. A shortfall in technical expertise was identified and external expertise brought in, this helped address the skills gap, however, this should have been done much earlier in the process.

Key staffing responsibilities within Mouchel Accountancy changed during the IFRS and close down period. This meant knowledge and experience was lost from key areas as new staff came into post.

Actions:

*- Need to ensure all staff involved with closedown have a clear understanding of the new standards. Further training needs to be undertaken and procedures prepared.*

*- Need to ensure sufficient resources are available to complete key tasks throughout the close down period.*

*- Need to put in place good succession plans which will minimise the effect of changing roles and responsibilities going forward.*

- Technical difficulties with SAP

A number of changes were required to SAP to implement the new accounting standards. Although all transactions were tested, when implemented not all operated as planned. This led to significant amounts of checking being required to identify the incorrect transactions and correct them.

Action:

- Need to ensure testing of SAP changes covers as wide a selection of scenarios as possible, to ensure they are functioning correctly.

- Need to ensure sufficient checks and reconciliations are performed during closedown to check transactions are posting the expected/correct entries.

5. Mouchel have prepared a more detailed list of issues and an action plan which will be used to address these to ensure that the issues which arose as part of the close down process and preparation of accounts in 2011-12 do not arise in the future. This can be found at Appendix A to this report.

## Conclusion

Significant problems were experienced with the preparation of the Statement of Accounts for 2010-11. The key issues have been identified and an action plan put in place to address these for the closure of accounts for 2011-12.

This report and the related action plan have been discussed with external audit colleagues to ensure it addresses all material issues that they regard as having been relevant to the situation.

## Consultation

### a) Policy Proofing Actions Required

N/A

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Closure of Accounts 2011-12 - Action Plan

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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