

Late Change to the KPMG's ISA 260 Audit Report

Additional words to the Exec Summary

The Code of Practice on Local Authority Accounting requires that all authorities establish and apply an accounting policy for componentisation. This policy should meet the requirements set out in IAS 16 Property plant and Equipment. We have reviewed the authority's componentisation policy and confirmed its appropriateness. However, the Authority will need to continue to review the appropriateness of the policy in light of the changing local government landscape and the move to HRA self-financing.

Additional words to Key Risk - IFRS

The componentisation policy adopted by the authority is in line with the requirements of the Code of Practice and IAS 16 Property Plant and Equipment. The Authority's approach and considerations in developing a policy are detailed at Appendix 1. We recommend that the Authority consider a number of factors on an annual basis to ensure that the policy remains appropriate. These considerations are also detailed at Appendix 1.

Additional Issue and Recommendation

We have reviewed the appropriateness of the Council's policy against the requirements of the Code of Practice and IAS 16. In doing so we have outlined a number of considerations that the Authority should keep under review to ensure the policy is appropriate. These considerations include:

- Where the level of capital expenditure in a year is significant and relates to an individual component, such as a roof, then the Authority would need to consider whether the policy is still appropriate or whether the amount spent over the class of asset should be separately accounted for as an individual component; and
- The impending changes to the HRA. The consultation paper issued by CIPFA in February 2011 outlined the proposed abolition of the Housing Subsidy and the MRA. This will increase the importance of an accurate depreciation charges in the HRA to ensure that suitable provisions are in place to fund major repairs to housing stock. For example, if the total replacement cost for an asset over the 30 year business plan is £33,000 then for business planning purposes, an annual depreciation charge of £1,100 would be expected.

Management response

- The council will review all capital spend at the end of each year under its established accounting policy for components.
Responsible officer: Principal accountant Corporate Financial Management.
Implementation date: closedown 2011/12.
- The council is closely following the ongoing consultations on changes to HRA asset valuation and depreciation arrangements, and will review its own approach once the national requirements and guidance have been finalised. Responsible officer:
Principal accountant Corporate Financial Management.
Implementation date: As and when accounting standards are amended.