



cutting through complexity™

Bridgend County Borough Council

Financial Statements Audit Plan 31 March 2011

Presentation to the Audit Committee

3 March 2011

The contacts at KPMG in connection with this report are:

Ian Pennington

Director, Cardiff, KPMG LLP

Tel: 029 2046 8087

ian.pennington@kpmg.co.uk

Katie Baggott

Manager, Cardiff, KPMG LLP

Tel: 029 2046 8294

katie.baggott@kpmg.co.uk

Matthew Arthur

Assistant Manager, Cardiff, KPMG LLP

Tel: 029 2046 8006

matthew.arthur@kpmg.co.uk

	Page	Appendices	Page
Summary	3	Meeting your expectations	21
Audit overview	5	Balance of internal controls and substantive testing	23
Key financial statement audit risks	9	Independence and objectivity requirements	25
Materiality	12	Sustainability	27
Audit team	14	Transition to IFRS	29
Audit fees	16	Amendments to the capital finance and accounting regulations	31
Audit timeline & deliverables	18		

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Wales Audit Office has issued a document entitled Statement of the responsibilities of the auditors appointed by the Auditor General for Wales and of the bodies that they audit (2010). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, who is the engagement director to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Ginny Stevens on 029 2046 8009, email virginia.stevens@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Wales Audit Office. After this, if you are still dissatisfied with how your complaint has been handled you can contact the Complaint Investigation Manager at the Wales Audit Office, telephone 02920 320500 or e-mail complaints@wao.gov.uk. The complaints investigation manager may also be contacted in writing at 24 Cathedral Road, Cardiff CF11 9LJ.

Summary

Our audit is divided into:

- financial statements, and
- use of resources.

In additional we support the Wales Audit Office with work under the Local Government Measure, carry out grant certification work and specific projects including responding to electors' questions.

This document describes how we will deliver our audit work for Bridgend County Borough Council

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Our statutory responsibilities and powers are set out in the Local Government Act 1999 (as amended by the Public Audit (Wales) Act 2004) and the Auditor General for Wales' Code of Audit and Inspection Practice (the Code).

The Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- financial statements (including the Annual Governance Statement): providing an opinion on your accounts; and
- use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

The Statement of the responsibilities of the auditors appointed by the Auditor General for Wales and of the bodies that they audit (2010) sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do in response to the risks identified this year.

Our Responsibility	Risks, Proposed work and output
Financial Statements and Annual Governance Statement	<p>Key risks identified are as follows:</p> <ul style="list-style-type: none"> • A move to International Financial Reporting Standards (IFRS) based accounting and the associated restatement of prior year's accounts. • Valuation of assets and investments • Contract management and procurement • Completion of the job evaluation project, and the need to accurately assess liabilities for equal pay claims and associated reserves • Budgetary constraints and the need for service prioritisation <p>Our work will encompass:</p> <ul style="list-style-type: none"> • Review of the controls over the completion of the accounts. • A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement. <p>The findings of this work support the audit opinion that we issue on your financial statements.</p>
Use of Resources	<ul style="list-style-type: none"> • Assessing whether you have arrangements in place to secure economy, efficiency and effectiveness in your use of resources. • We have maintained dialogue with officers and have kept up to date with developments at the Council. Our use of resources work has been adapted to respond to the changing risk environment within which the Council operates. Key matters include the Council's medium term financial planning and delays to the job evaluation project. • We link this work with work being carried out through the Local Government Measure.

Audit overview

We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council.

Determining materiality

- We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.
- Materiality is calculated as a proportion of gross expenditure.

Reporting to Audit Committee

To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

International Financial Reporting Standards (IFRS)

All local authorities are required to implement IFRS, moving away from UK GAAP for 2010/11 financial statements. We will continue to work closely with the finance team to ensure the smooth transition to IFRS.

We will audit the re-stated 2009/10 balances early in the audit process to provide assurance on key aspects of your IFRS migration work, identify any issues on a timely basis and also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season over the summer.

We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the Wales Audit Office. The 2010/11 WGA consolidated pack will need to be produced in accordance with the Code. In 2010/11, we will audit the draft WGA consolidated pack in July, and complete our work in late August/September when a final WGA consolidated pack has been prepared by the Authority. We will report on our findings in our ISA 260 report to the Audit Committee in September.

National Fraud Initiative

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified.

Certification of grant claims and returns

On 3 February the Auditor General launched a consultation on its proposed new strategy for auditors' work on grants. If the new strategy is adopted there will be changes in the approach to the required work to certify the Council's claims and returns to grant paying bodies. KPMG will await the outcome of this consultation and will follow the agreed approach. However, in the meantime, KPMG will continue to certify the Council's claims and returns on the following basis, on the provision that no change is to be made to these limits by the Wales Audit Office:

- claims below £50,000 will not be subject to certification;
- claims between £50,000 and £100,000 will be subject to a reduced, light-touch certification; and
- claims over £100,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Elector Challenge

The Public Audit (Wales) Act 2004 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Wales Audit Office's fee scales.

A blue trapezoidal graphic on the left side of the slide, tapering from left to right. It contains the text 'Key financial statement audit risks' in white.

Key financial statement audit risks

Key financial statement audit risks

These are the key financial statement risks identified for 2010/11. We seek to tailor our audit approach to reflect this.

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Audit Committee on these risk issues.





KEY audit risks	Impact on audit plan
<p>IFRS conversion process</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> Financial statement presentation 	<p>Impact of IFRS conversion process</p> <p>The transition to IFRS represents the largest change in accounting for a number of years. This will require a lot of planning and resources by the Council to ensure a smooth and successful transition to IFRS.</p> <p>This will have a material effect on the financial statements, most notably in the areas of leases, employee benefits, property, plant & equipment and potential group accounting requirements.</p> <p>Our audit work</p> <p>We will audit the re-stated 2009/10 financial statement figures in February 2011. During this time we will assess the processes being undertaken by the Council and provide advice on how this can be improved to ensure the final year's figures are compliant with the standards. Our audit work on the re-stated figures will be completed in July, when the 2011/12 financial statements have been produced</p> <p>We will keep in regular contact with the finance team during this period, discussing emerging issues and current guidelines.</p> <p>During the final accounts audit we will audit all figures in line with IFRS.</p>
<p>Valuation of assets and investments</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> Fixed and current assets Investments 	<p>Valuation of assets and investments</p> <ul style="list-style-type: none"> The Council has a significant fixed asset holding which was revalued in 2009/10, and there have been programmes during 2010/11 to rationalise the property base. With declining asset values and the present economic conditions, assets may become impaired. We will review the Council's process for identifying assets which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements. The volatility of the current economic climate leads to potential valuation concerns in relation to investments held, and their recoverability. In addition, there is an increasing risk that debtors, notably council tax, may not be paid in good time and in full in times of economic distress.

Key financial statement audit risks

These are the key financial statement risks identified for 2010/11. We seek to tailor our audit approach to reflect this.

For each key risk audit area we have outlined the impact on our audit plan.

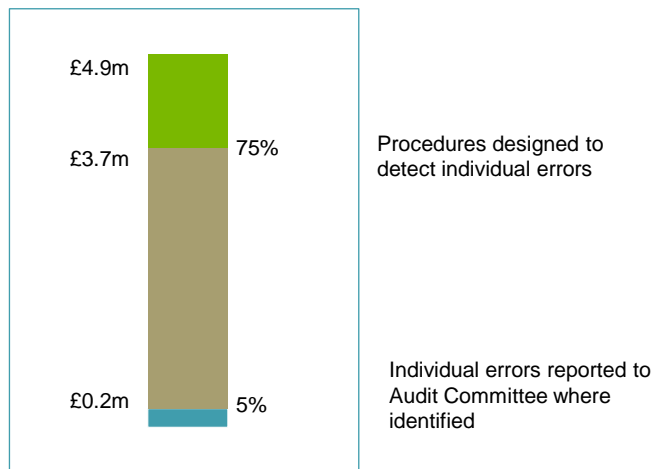
We will provide an update to the Audit Committee on these risk issues.

KEY audit risks	Impact on audit plan
 <p>Contract Management</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Accruals • Capital expenditure • Operating expenses 	<p>Contract management</p> <ul style="list-style-type: none"> • Some significant new contracts have begun in 2010/11. We will assess the contract management process during the 2010/11 audit to ensure that there are adequate controls in place to monitor costs and report them properly in the financial statements. We will also perform cut off procedures at year end to ascertain whether all costs relating to 2010/11 have been captured in the year. We will rely upon work carried out by your internal audit team where possible.
 <p>Equal pay / job evaluation</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Provisions • Ear-marked reserves 	<p>Equal pay / job evaluation</p> <ul style="list-style-type: none"> • We will review the number of equal pay claims received and either settled or outstanding by the Council, discuss the liability with the legal department, finance and HR, and review communication with third party lawyers. • We will discuss the progress of the job evaluation scheme, and consider the current provision level within the financial statements, including any capitalisation directions sought or issued.
 <p>Budgetary constraints</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • All financial areas 	<p>Budgetary constraints and service prioritisation</p> <ul style="list-style-type: none"> • In common with all local authority bodies in Wales, Bridgend's revenue support grant is under pressure and the Authority has to make difficult service prioritisation and saving decisions. • We will assess the processes undertaken by the authority to achieve these savings. We will also look at the implications of any decisions on the 2010/11 financial statements (potential costs, provisions and asset impairments).
 <p>Payroll costs</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Operating expenses 	<p>Payroll costs</p> <ul style="list-style-type: none"> • Payroll costs are the major cost flow in the Council. In previous years' audits some issues have been identified around the way in which the Council evidences the completion of certain controls over starts and leavers • We will follow up previous years' issues. We will assess the design and implementation of the starter and leaver controls, consider any compensating controls that are in place, and whether any auditor recommendations (both internal and external) have been dealt with. We will look at any internal audit work in this area.

Materiality

Our audit work is planned to detect errors that are material to the accounts as a whole.

Overall materiality



Note: Materiality will be updated on receipt on the draft 2011 financial statements.
 Source: 31 March 2010 financial statements.

What do we mean by materiality?

In layman terms, materiality is the margin of error we will accept before we qualify our opinion on the accounts.

Why do we have a level of materiality?

We only have a limited time in which to complete our work. As a result, we focus our testing on a sample of transactions rather than everything. To make our sample testing most effective, our work is driven by an assessment of risk and a level of materiality. This means we sample test the transactions that are more likely to be prone to significant fraud or error.

Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures. This includes our assessment of the Council's track record in preparing accounts.

Materiality has been set at £4.9 million which is 1% of gross operating expenditure.

We design our procedures to detect errors at a lower level of precision, i.e. £3.7 million. We have some flexibility to adjust this level downwards.

Reporting to Audit Committee

To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

We will not report audit and disclosure differences that are considered to be trivial.

Individual errors above £200,000 will be reported to the Audit Committee where identified.

Audit team

The core of our audit team is unchanged from last year with Ian Pennington leading the engagement, and Matthew Arthur managing the field work. Katie Baggott will act as Audit Manager.

The audit team will be assisted by other KPMG specialists when necessary.

Our Audit Team

Our core audit team consists of the following members:

Role	Name	Responsibilities	Role
Engagement Lead	Ian Pennington	Ian's role is to lead our team and ensure the delivery of a high quality external audit opinion. He will be the main point of contact for the Audit Committee and the Chief Executive.	Engagement Lead
Audit Manager	Katie Baggott	Katie will provide strategic direction for the audit and will work closely with Ian to ensure we add value. Katie will also direct and help co-ordinate and review the audit work on a day to day basis and will work closely with Matt to deliver an efficient audit. She will be the main contact for the Chief Finance Officer and other executive directors.	Audit Manager
Audit Assistant Manager	Matthew Arthur	Matt will be your day to day contact and will work closely with Katie to deliver a co-ordinated and efficient audit.	Audit Assistant Manager

Audit fees

At present, fees for the 2010/11 audit cannot be set as the fee scale prescribed by the Wales Audit Office remains at the consultation stage.

From the best information that we have available, we do not expect any significant changes to the overall fee levied for our audit work.

Fees

Our fee is calculated with reference to a number of factors including your income and our assessment of audit risk and control environment, based on a fee scale set by the Wales Audit Office in consultation with local government bodies across Wales.

The main audit fee paid to KPMG was reduced from £305,580 in 2008/09 to £290,500 in 2009/10, on a like-for-like basis. Additional fees of £10,000 were paid as a result of the implementation of IFRS, similarly to other authorities in Wales. Grant certification and elector objection fees are separately calculated and charged and reported separately.

We will communicate our fees to the Assistant Chief Executive - Performance in writing as soon as we are able to do so.

Local Government Measure

As part of the work to be performed around the Local Government Measure, we plan to conduct work in the following areas:

Workforce planning – we will update our evaluation of Workforce Planning at the Council through interviews and reviews of policies and procedures in place

Resource management – we will conduct interviews and review documented plans in relation to financial planning and resilience

Partnerships – we will work with the Council to identify benefits and risk of partnership working

High level process analysis – we will document key business processes and explore how these operate in practice, identifying areas for further focus during the rest of the year which will include, along with Wales Audit Office staff, observing how decisions are made and commenting on the effectiveness of the process.

The areas of audit focus under the Measure are agreed with the Wales Audit Office and the review work undertaken helps to inform their conclusions on the ability of the Authority to improve. Unless there are significant specific findings, individual reports are not prepared for each individual study.

Audit timeline & deliverables

Audit timeline & deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> ● Outline audit approach ● Identify areas of audit focus and planned procedures ● Confirm plan with Audit Committee 	March 2011 March 2011 March 2011
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> ● Auditors' report on the Council's financial statements ● Auditors' report on the Council 's use of resources ● Detail the resolution of key audit issues ● Communication of adjusted and unadjusted audit differences ● Communication of control recommendations ● Performance improvement recommendations identified during our audit 	September 2011 Audit Committee
Opinion on financial statements		30 September 2011
Annual audit letter	<ul style="list-style-type: none"> ● Final arrangements to be confirmed by WAO 	November 2011



cutting through complexity™

Appendices

A large blue trapezoidal graphic on the left side of the page, pointing to the right. It contains the text 'Appendix 1 Meeting your expectations' in white.

Appendix 1

Meeting your expectations

How we will conduct ourselves

Communications

We will be proactive in developing relationships with your staff where our audit work requires their input.

We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours.

We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.

Ian Pennington or Katie Baggott will attend all Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together

We will ensure that the Head of Property and Finance, Chief Accountant and other key members of staff are kept informed of the progress of our audit work throughout the year.

We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.

We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

Brief our staff on key issues affecting the Council.

Review and agree the draft plan.

Interim Audit

Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.

Ensure that key officers are available for the duration of our audit.

Respond to and agree our draft reports in good time.

Accounts Audit

Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.

Produce the documents listed within our prepared by client request by the agreed start date of our audit.

Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

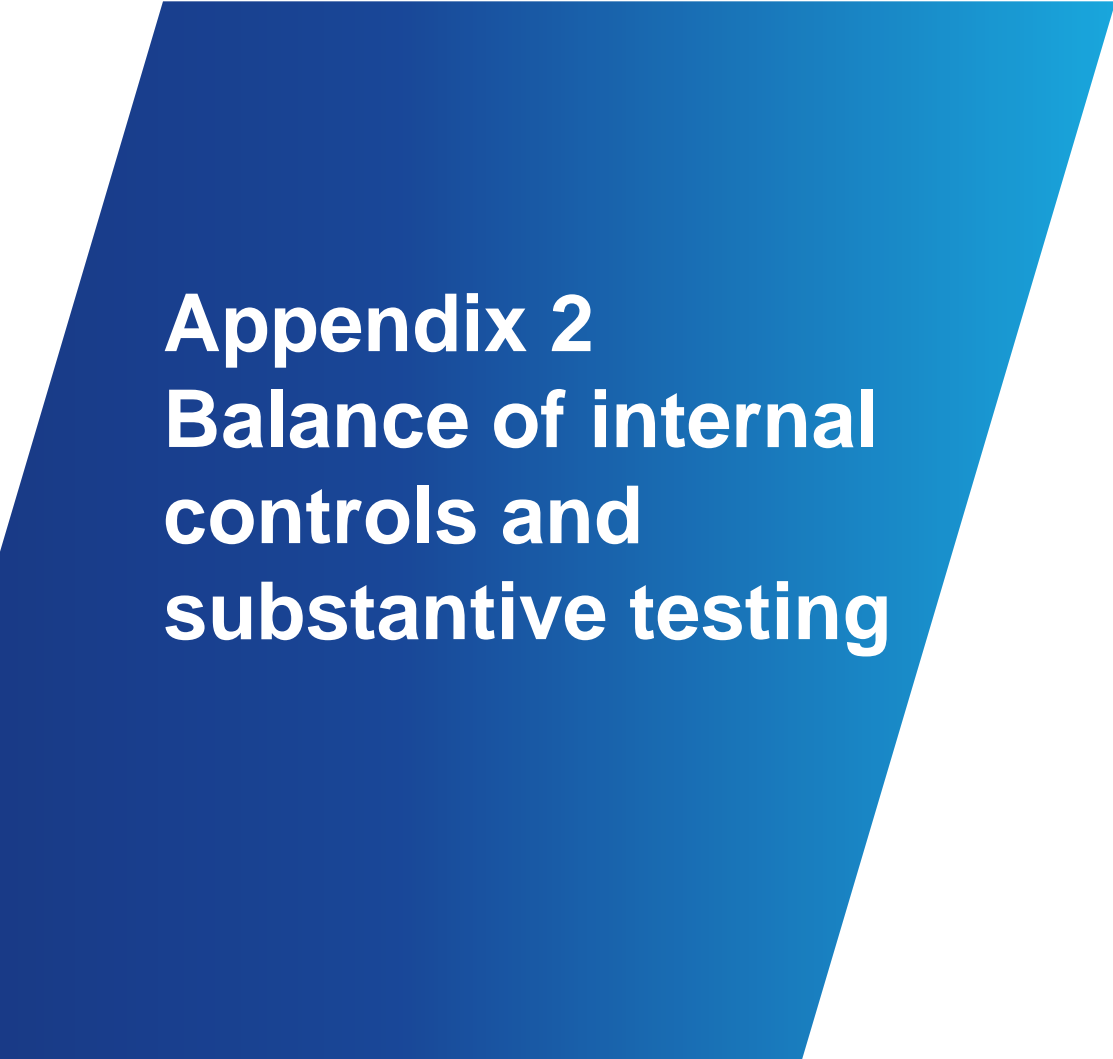
Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.

Ensure that all action plans are agreed and followed up in due course.

Other work

Agree a key Council contact as a focal point for the study or work.

Discuss and review our findings so that action plans can be fully completed and implemented.

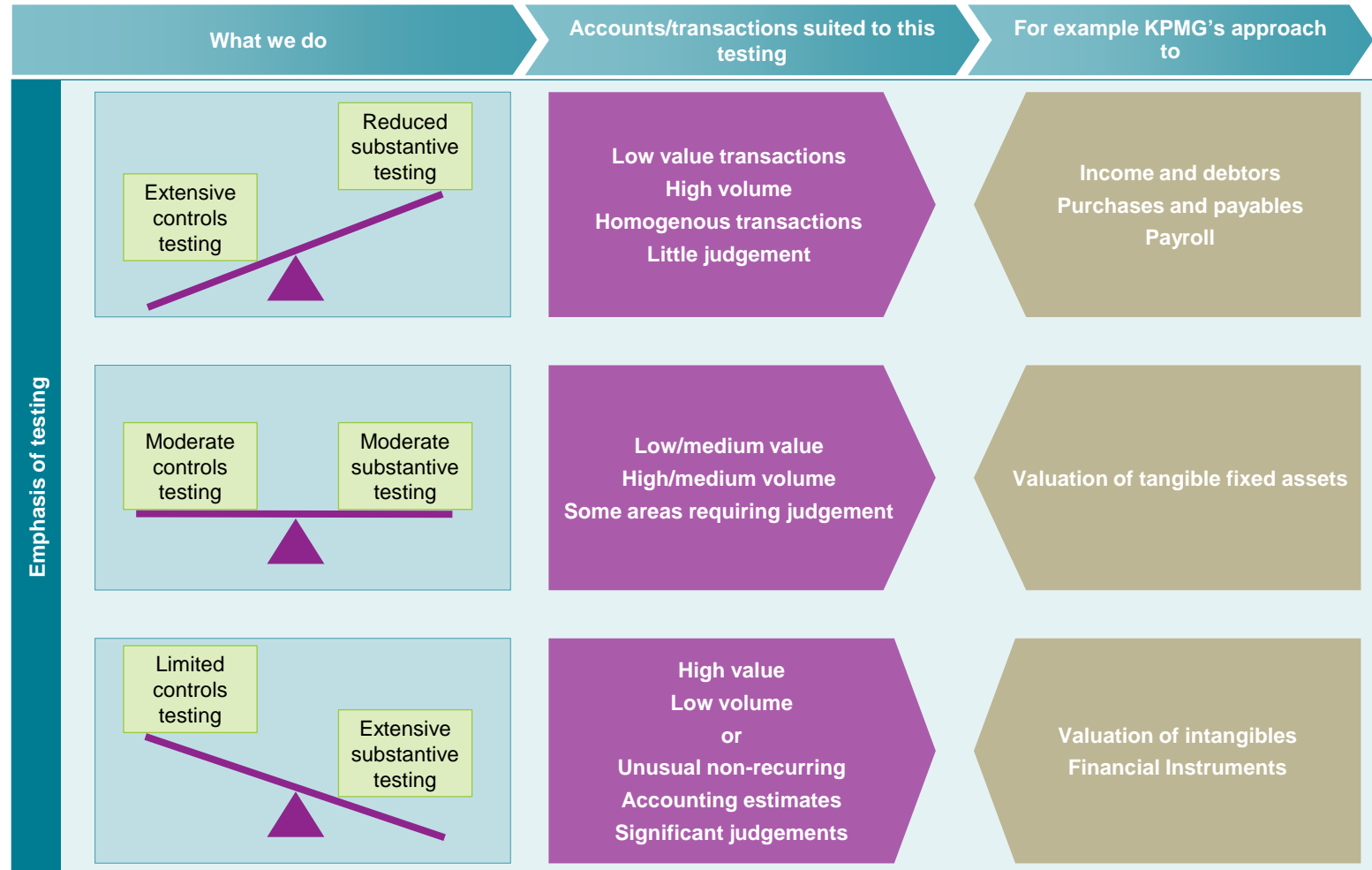
A blue trapezoidal graphic on the left side of the slide, containing white text.

Appendix 2

Balance of internal controls and substantive testing

Appendix 2: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



Note: Assuming controls are found to operate as designed.

A blue trapezoidal graphic on the left side of the page, containing white text. The graphic is a parallelogram with a slanted right edge.

Appendix 3 Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

Declaration of Independence and Objectivity 2010/11

Auditors appointed by the Auditor General for Wales must comply with the General Principles contained within the Auditor General's Code of Audit and Inspection Practice (the Code) which states that auditors must, "be, and be seen to be, independent." As a result:

"Auditors and inspectors carry out their work with independence and objectivity, in accordance with appropriate ethical standards. Their opinions, conclusions and recommendations should be, and be seen to be, impartial."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditors' professional judgement, the auditors are independent and the auditor's objectivity is not compromised, or otherwise declare that the auditors have concerns that the auditors' objectivity and independence may be compromised and explaining the actions which necessarily follow from their opinion. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Director and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditors' Declaration

We will declare our independence and objectivity formally to the those charged with governance at the end of the 2010/11 audit.

Appendix 4

Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

We are committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.

Appendix 5

Transition to IFRS

This appendix summarises the key accounting changes highlighted in the Code

The Accounting Code of Practice for Local Authorities in the United Kingdom 2010-2011 (the Code) reflects the requirements of International Financial Reporting Standards (IFRS).

The move from a UK GAAP-based SORP to an IFRS-based Code results in a number of significant changes in accounting practice. The key accounting changes highlighted in the Code are:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation (section 2.3).
- The main financial statements have changed, and there are additional requirements regarding segment reporting (section 3.4).
- There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced (section 4.1).
- Property leases are classified and accounted for as separate leases of land and buildings. Local authorities will also need to assess whether other arrangements contain the substance of a lease (section 4.2).
- Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve (section 4.4).
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset (section 4.7).
- The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification (section 4.9).
- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay (section 6.2).
- The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary (chapter nine).

Amendments made to the Capital Finance and Accounting Regulations are intended to ameliorate the impact of the changes upon revenue and capital resources (see Appendix 6)

Appendix 6
Amendments to the
capital finance and
accounting
regulations

This appendix summarises the key amendments to the capital finance and accounting and finance regulations

The Assembly Government issued further amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations in 2010. The amendments:

- change the definition of retirement benefits so as to include benefits payable under all defined benefit schemes, which are accounted for as defined benefit schemes;
- permit local authorities to apply up to 4% of the capital receipt received from the disposal of non-HRA property to defray the costs of disposal;
- extend until 2013 the option to defer charging liabilities for back pay due to equal pay claims to revenue account, until the date on which the back payment is paid;
- extend to 2011 the special provisions relating to impairment of deposits in Icelandic Banks;
- do not permit a local authority to recognise a liability relating to short-term accumulating absences of employees in a revenue account until the date on which the liability ceases;
- permit local authorities to continue to recognise income from leases which were in place on 31 March 2010 in accordance with the classification (operating / finance) which applied at that date; and
- update the title of one of the documents identified by the Welsh Ministers as constituting proper practices in relation to the accounting practices of a county or county borough council and designates a new document in relation to the accounting practices of community councils and minor joint committees.

Retirement Benefits

Whereas the Regulation previously applied to specific funds or schemes it now applies to all defined benefit schemes which are accounted for as such in accordance with proper practices. The change was made as a result of issues arising with the new Police and Fire-fighter schemes not being covered by previous Regulations. The effect of the Regulation is to clarify that the IAS 19 based costs are to be replaced with the actual employer pension contributions and benefit costs met by the employer under the pension Regulations for the purpose of determining revenue requirements.

Costs of disposal of non HRA property

This amendment extends the ability to defray costs of disposal from capital receipts, which has been available to the HRA for a significant time, to non-HRA capital receipts. The Regulation limits the costs of disposal defrayed from capital receipts to 4% of sale proceeds for non-HRA properties.

The Wales Audit Office considers that this provision has the effect of classifying costs of disposal, up to the specified limit, as revenue expenditure funded from capital under statute.

The Local Authority Code of Accounting Practice requires revenue expenditure funded from capital under statute to be recognised in the Comprehensive Income and Expenditure Statement when the expenditure is incurred. However, the impact of that expenditure on the Council Fund Balance is ameliorated by a transfer from the Capital Adjustment Account in the Movement in Reserves Statement.

When the sale proceeds are received, which may be in a later financial year to that in which the expenditure is incurred, part of the capital receipt is applied to finance the revenue expenditure funded from capital under statute.

This appendix summarises the key amendments to the capital finance and accounting and finance regulations

Unequal pay

The extension of the amelioration arrangements relating to liabilities arising from unequal pay until 2013 reflects the lack of progress made by a number of local government bodies in reaching a settlement. The Regulations have the effect of not requiring amounts recognised prior to 1 April 2013 to be funded until such time as payment is made. The amelioration arrangements also apply to movements in provisions made prior to 1 April 2013 until the final amount is known and paid.

It is, however, important that local government bodies make appropriate arrangements to ensure that sufficient funding is available when the amelioration arrangements expire.

Deposits in Icelandic banks

The extension of the amelioration arrangements relating to the impairment of deposits in Icelandic banks until 2011/2012 reflects the continuing uncertainties regarding the amounts that will be recovered.

It is important that local government bodies make appropriate arrangements to ensure that sufficient revenue resources are available to fund this impairment in 2011/2012. Available information suggests that Capitalisation Directions may not be available to meet these impairment losses in 2011/2012.

Short term accumulating absences

The amendment prohibits a local government body from recognising a liability relating to short-term accumulating absences of employees in a revenue account until the date on which the liability ceases. The effect of the Regulation is to ameliorate the impact of the IFRS based Code requirement to accrue short-term accumulating absences on the Council Fund. Any accrual relating to short-term accumulating absence and adjustments thereto will not impact upon revenue resources.

Income from leases

This amendment, when taken together with the Guidance relating to MRP, has the effect of ameliorating the impact on the revenue and capital resources of local government bodies of leases being reclassified from operating to finance or from finance to operating, on transition to IFRS.

However, the amounts recognised in the Comprehensive Income and Expenditure Statement and the Balance Sheet must reflect the requirements of the Code, with the effect of the change arising from reclassification upon specific usable reserves ameliorated in the Movement in Reserves Statement.

The amelioration arrangements do not apply to leases entered into on or after 1 April 2010.

Proper Practice

The Regulations have been amended to refer to the Code of Practice on Local Authority Accounting in the United Kingdom (Code) rather than the Statement of Recommended Practice (SoRP).

Also, as a result of the Code not applying to community councils and smaller joint committees, the Regulations have been amended to identify Governance and accountability for Local Councils: A Practitioners Guide 2008 (Wales) as specifying proper practices for those bodies.

The Regulations also refer to Best Value Accounting Code of Practice being renamed. The document will be renamed the Service Reporting Code of Practice for 2011/2012.



cutting through complexity™

© 2011 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).