

Audit Committee 22nd September 2011

**Response to Auditors: Report To Those Charged With Governance  
International Standard of Auditing (ISA) 260**

There have been significant challenges faced by the Authority in 2010/11 brought about by the conversion to IFRS. The Authority has worked closely with PwC during the implementation of the detailed project plan for IFRS implementation and in supporting the audit of the draft accounts. We are pleased to note the positive nature of the "ISA260 Report to those charged with Governance" and that there are no significant matters of concern.

Set out below is a response to the ISA 260 which PwC consider to be the most significant matters during the course of the 2010/11 audit:

The Conversation to International Financial Reporting Standards (IFRS)

We have worked closely with PwC during the development and implementation of the IFRS project plan and are pleased that this has contributed to a relatively smooth transition to IFRS based accounting. We note that one unadjusted error has been identified during the course of the audit which related to our IFRS transition work. As a consequence, the Council's Property Plant and Equipment are understated by £3m, or less than 1% of the net book value of P, P & E; as part of our work in 2011/12. However, this has no impact on the revenue out-turn on the level of useable reserves.

The Valuation of the Authority's Properties: Component Depreciation

The Council's depreciation policy has been re-written in 2010/11 in response to the changes required for IFRS implementation. We have worked closely with internal and external valuers and have welcomed the opportunity to discuss the revised policy with PwC throughout the IFRS implementation project.

In common with most other authorities, we have adopted a de-minimus threshold below which assets are not componentised. We understand that our external valuers, Wilkes Head and Eve have adopted this valuation approach with other clients.

In 2011/12 a further tranche of assets will be revalued. As such, some assets may require componentisation; others will fall below the de-minimus threshold. We acknowledge that this approach will need to be kept under review to ensure that the accounting disclosures are not materially affected. We intend to discuss the policy with our Valuers and will discuss any proposed changes in policy with PwC at the earliest opportunity.