# Audit Committee

# 5 November 2019

## Application of Capitalisation and Depreciation Policies

### Executive Summary

**Context**

Detailed analysis of the HCPC accounting policies has raised questions about the interpretation and application that the Finance Director would like to ask the Audit Committee for direction on.

At this stage, it is believed that these are the interpretation of policy rather than changes to the policy.

**Discussion Points**

*Bundling / Unbundling*

The current capitalisation policy that capital items <£5,000 are not capitalised. Purchases are often unbundled to minimise the capital expenditure. As an example, 10 laptops where purchased at £1,000 each. This is currently interpreted as 10 separate items of less than £5,000 and therefore the cost is expensed. An alternative view is that this is a single purchase of >£5,000 and should be capitalised.

*Project Costs*

The current interpretation of project costs is that many vendor costs for projects are capitalised while the direct HCPC costs such as project manager costs and some vendor implementation costs are expensed. An alternative interpretation of the policy is that all directly attributable costs, both vendor and HCPC costs, should be capitalised to reflect the true cost of the project.

*Economic Life*

Currently all capital assets, except land and buildings, are depreciated over 3 years irrespective of the forecast economic life of the asset. It is proposed to review the depreciation periods to align the period with a realistic forecast of the economic life.

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| Previous consideration | The Committee last reviewed the capitalisation, depreciation and amortisation policy in June 2017. |

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| Decision | The Audit Committee is asked to discuss and provide a view on the next steps. |
| Next steps | Impact analysis on the financial statements of the changes. Any propose change to policy requires the Audit Committee to recommend these changes to the Council. |
| Strategic priority | Strategic priority 3: Ensure the organisation is fit for the future and is agile in anticipating and adapting to changes in the external environment |
| Risk | SR 4. Failure to be an efficient regulator<br>SR 5. Failure of leadership, governance or culture |
| Financial and resource implications | None as a result of this paper |
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