

<b>SUBJECT:</b>	<b>Materiality</b>
<b>REPORT OF:</b>	<b>Officer Management Team - Director of Resources Prepared by - Head of Finance &amp; IT</b>

## 1. Purpose of Report

- 1.1 The purpose of this report is obtain the Audit Committee's opinion on the appropriate level of materiality for the SBDC Accounts.

## 2. Links to Council Policy Objectives

- 2.1 Producing accurate financial statements is part of good corporate governance.

## 3. Background

- 3.1 Each year the Authority is required to produce formal Statement of Accounts in accordance with the Accounts and Audit Regulations. This requires that the Accounts are produced in line with the Code of Practice on Local Authority Accounting - A Statement of Recommended Practice (the SORP).

- 3.2 One of the underlying accounting concepts in the SORP is Materiality. This is defined /described as follows:

'Materiality is the final test of what information should be given in a particular set of financial statements. Whilst the paragraphs above describe the characteristics that, if present will mean that the usefulness of the financial information has been maximised, materiality is a threshold quality ensuring that the information is of such significance as to justify its inclusion in the financial statements.

An item of information is material to the financial statements if its misstatement or omission might reasonable be expected to influence assessments of the authority's stewardship, economic decisions, or comparisons with other entities, based upon those financial statements. If there are two or more similar items the materiality of the items in aggregate, as well as of items individually, needs to be considered.

Whether an items (or items considered in aggregate) is material will depend on the size and nature of the item in question, judged in the circumstances of the case. The principal factors to be taken into consideration include:

- a) the item's size judged in the context of both the financial statements as a whole and of such other information as would affect consideration of the financial statements (for example consideration of how the item affects the evaluation of trends)
- b) the item's nature, in relation to:
  - (i) the transactions or other events giving rise to it
  - (ii) the legality, sensitivity, normality and potential consequences of the event or transaction
  - (iii) the identity of the parties involved
  - (iv) the particular headings or disclosures affected.

Strict compliance with the SORP, as to both disclosure and accounting principles, is not necessary where the amounts involved are not material to the fair presentation of the financial position and transactions of the authority and to the understanding of the Statement of Accounts by a reader.'

**4. Discussion**

4.1 When producing the Accounts SBDC attempts to be as accurate as possible. However there is by necessity always some estimation - for instance land and buildings are only re-valued every 5 years as this normally gives values that are within materiality.

4.2 There can therefore be debate with external audit about whether or not an item is material and thus whether or not an item should be adjusted for.

4.3 With this in mind it is useful to set out guideline levels for materiality - in the context of SBDC's gross revenue expenditure being £29m and the gross asset value being £45m.

Under £100,000      Minor issue - unlikely to adjust for items below this level.

£100,000 - £250,000      Depends on issue.

Over £250,000      Likely to adjust for items over this level.

Over £500,000      Approximate level that our external auditors consider to be material, and thus external audit are likely to expect adjustments of this scale to be made.

**5. Resource, Risk and Other Implications**

5.1 There are no direct financial, legal or human resource implications from this report.

**6. Recommendations**

6.1 The Audit Committee is requested to consider the materiality guideline levels.

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Background Papers:	