

Better Reporting Group

Discussion paper: materiality

October 2025

Introduction

The Better Reporting Group (BRG) was relaunched by CIPFA in 2024 with a focus on improving local government accounts. The BRG aims to enhance user experiences with accounts as well as easing the burden on preparers and auditors.

The BRG have identified several technical accounting projects to investigate and have recognised that materiality is an underlying consideration for each of these projects. This paper aims to clarify the current position on materiality and to encourage wider exploration on the concept of materiality and the way that it influences how users receive and interpret financial information. A key objective will be to seek to ensure consistency in the way that accounts preparers and auditors apply the concept.

Materiality is fundamentally important for financial statements. It focuses attention on the information that is most important for the decisions taken by users, allowing key messages to be presented free of clutter. It also focuses auditor attention on those areas most critical to users' decision-making.

There can sometimes be tensions over the levels and basis of materiality used. There is consensus on the importance of materiality and the importance of a true and fair view of the accounts. The current basis used by auditors is generally to calculate a materiality level based on a percentage of revenue spend for local authorities.

There is general consensus on the level of materiality used for the audit of income and expenditure. The difference of opinion mainly concerns the materiality levels for the audit of the local authority balance sheet. Having different material levels for different sections of the financial statements may be beneficial for accountants, auditors and users.

Within the sector there are substantial demands and conflicts for limited resources, both for accountants and auditors. It's important to consider the role of materiality in this context and whether it is adding to the pressure.

It is important that the annual audit process is proportionate to the relevant financial statements and should be adding value to the process. All financial statements will need to be considered individually and we appreciate that a common level of materiality would not be suitable for all local authorities. However, a common approach to materiality would be beneficial.

The local authority standards for materiality

Local authorities prepare their financial statements following CIPFA's [Code of Practice on Local Authority Accounting in the United Kingdom](#) ('the Code'). This is clear that there cannot be a uniform, quantitative threshold for materiality or a predetermination of what could be material in a particular situation. This allows for the variety between services provided by different local authorities and the resulting different income, expenditure, assets and liabilities. The BRG does not recommend any change to the Code.

There is a focus in the Code on deciding which disclosures will have a material impact on the understanding of the accounts. This can sometimes result in a move to simplifying the accounts and reducing disclosures where possible so that key messages are not obscured. Adjusting disclosures in the financial statements does not remove the detailed work required behind the figures or therefore the requirement to audit this detail. However, it may result in a different level of focus for practitioners and auditors.

Practitioners and auditors will always discuss materiality levels as part of the audit planning. Some practitioners find that a proactive approach to this discussion can help with an understanding for auditors of how materiality has been considered by practitioners during their processes.

The audit environment

Auditors assess materiality by determining the significance of financial information in the context of an organisation's financial statements. Materiality helps auditors focus on matters that could influence the decisions of stakeholders.

The FRC develops and maintains International Standards on Auditing (ISAs) for engagements that are performed in the public interest within the UK. [ISA \(UK\) 315](#) (Identifying and Assessing the Risks of Material Misstatement) and [ISA \(UK\) 320](#) (Materiality in Planning and Performing an Audit) outline the auditors' responsibility for investigating material misstatements. The Public Audit Forum's [Practice Note 10](#) (revised 2024) contains guidance and illustrative examples for the application of audit standards to public sector bodies.

ISA 320 requires the auditor to determine materiality for the financial statements as a whole. There is an opportunity for auditors to use a lower materiality level for some particular areas of the financial statements. However, it is not permitted for areas to be audited with a higher level of materiality than the financial statement-level materiality; therefore, if the overall basis of materiality is based on the income and expenditure, a higher balance sheet level is not possible.

Statutory auditors must be registered with a supervisory body and are subject to regulation and inspection in the same way as any other profession. They are required to demonstrate that they have undertaken sufficient testing to address identified risks and to ensure compliance with relevant auditing standards.

The local authority balance sheet

A local authority balance sheet is different to that of a private company. A series of statutory overrides, that override generally accepted accounting practice under the Code, add a unique complexity to local authority accounts resulting in many balance sheet transactions, such as the impacts of asset and pension valuations, being reversed out to ensure there is no impact on the operating bottom line of the authority. Within a private company these transactions would have a direct impact on the income statement. The statutory overrides within local authority accounting are unique and allow for there to be no direct impact on certain balance sheet adjustments when setting council tax.

The BRG has separate projects investigating 'statutory overrides', 'asset valuations' and 'pension reporting'. This paper does not investigate those topics or make any recommendations for them; it acknowledges the pressure on these areas and utilises them as illustrations of the current differences of opinion around materiality.

Asset and pension valuations are often completed by experts external to the local authority. There will be a significant amount of information provided by the local authority to the external experts and, once valuations are provided, these will be processed in the accounts following the Code. This process results in a large volume of work for the accountants and a large amount of data for the auditors to assess.

Many balance sheet values are 'material' by being high value and in the case of assets and pension fund valuations, are complex and based on estimates and judgments. However, they could be classified 'not material' when considering the impact on the authority's bottom line and therefore the local taxpayer. They may also be classified 'not material' when considering that asset and pension valuations are often outside of the control of the local authority and will not impact operational decisions.

Regulation for auditors is the same for both public and private sector. Items which local authority practitioner and taxpayers may consider as 'not material,' as described above, might still be classified as 'material' to an auditor.

Users' understanding of materiality

The Code explains that the judgement regarding materiality should be based on the needs of the users of the accounts. The BRG has separately considered the users of local authority accounts and recognises the link between the way in which materiality influences the format and presentation of the accounts and the experience of users.

It can be difficult for both practitioners and auditors to ensure that councillors and the public have an understanding of materiality and the bearing of account balances and transactions deemed to be material on the financial viability of the council. Many will be interested in what has been spent on services in a particular year and may have limited knowledge of the often-complicated balance sheet transactions. Many of the high value balance sheet items such as pensions and assets have minimal impact on the bottom line of a local authority's accounts and are often outside the influence of leadership. They therefore provide limited information on the financial resilience and sustainability of the organisation.

This is in contrast to the private sector where there is a much closer relationship between the balances and transactions users are seeking to rely upon and their sensitivity to material misstatement. There is also a heightened awareness by private sector account users as a result of some high-profile incidents involving valuation errors for both assets and pensions.

It is easy to see how the topic of materiality can be confusing for users of local authority accounts rather than helping them to understand and interpret the information.

The way forward

This paper does not propose any changes to the current regulations but instead aims to encourage further discussion on the topic. The BRG hopes to be able to work with other stakeholders in the sector to explore materiality levels, with the hope of standardising practice across preparers and auditors of accounts.

Having different materiality levels for different sections of the financial statements may be beneficial for accountants, auditors and users. The BRG recognises that different materiality levels for different sections of the financial statements may be beneficial and would welcome further exploration and discussion on the topic.

The BRG will continue to consider the impact of materiality in financial reporting through future technical accounting projects.