EXPOSURE DRAFT A: CLARITY AND STREAMLINING: PRINCIPLES

1.7 MATERIALITY

1.7.1 The Code provides a definition of materiality in paragraph 2.1.2.14 which is applied to information and disclosures in local authority financial statements. This Code only requires local authority financial statements to disclose information which is material. ~~CIPFA/LASAAC is of the view that l~~Local authority financial statements ~~ies~~ should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements.

2.1 CONCEPTS

2.1.2 Accounting Requirements: Fundamental qualitative characteristics

2.1.2.14 **Materiality** — information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. ~~is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority.~~ In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority's financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. Materiality is an important concept for preparers of financial statements, because although decisions on the type of information which is useful are generally made by standard setters[10], judgments on whether matters are material are necessarily a matter for preparers. An authority can comply with the Code, while not complying with specific disclosure and accounting requirements in the Code, if the information is not material to the 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

2.1.2.14B Information regarding a material item may be obscured for the users of the financial statements if, for example:

a) information is provided but the language used is vague or unclear

b) information is scattered throughout the financial statements

c) dissimilar items are inappropriately aggregated

d) similar items are inappropriately disaggregated

e) a user is unable to determine what is material as a result of information regarding a material item being hidden by immaterial information

2.1.2.14C Judgements regarding materiality should be based upon the needs of users as defined in Section 2.1 above. Additional information may be disclosed where this does not obscure information which is material for users.

EXPOSURE DRAFT A: CLARITY AND STREAMLINING: PRINCIPLES

3.3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

3.3.2 Definitions

3.3.2.4 **Material.** – the definition and guidance provided in Section 2.1 applies~~Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor~~.

3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.2 Definitions

3.4.2.7 **Material**~~.~~ – the definition and guidance provided in Section 2.1 applies.~~Omissions or misstatements of items are material if they could, individually or collectively, influence th decisions or assessments of users made on the basis of the financial statements. Materia depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor~~.

3.4.2 Financial Statements

3.4.2.17 A complete set of financial statements comprises:

- a) comprehensive income and expenditure statement for the period
- b) movement in reserves statement for the period
- c) balance sheet as at the end of the period
- d) cash flow statement for the period
- e) notes, comprising significant accounting policies and other explanatory information
- f) comparative information in respect of the preceding period as specified in paragraphs 3.4.2.30 and 38A of IAS 1 (see also paragraph 3.4.2.27C)
- g) balance sheet as at the beginning of the preceding period (ie a third balance sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its

3.4.2.27B When considering whether to add new disclosures to the annual report and accounts the following questions should be considered:

a) Should the information be published?

i) Is the information required by statute?
ii) Is there a user need, and who is the user?
iii) Is the information accurate and reliable?
iv) Do the benefits of disclosure outweigh the costs and give value for money?

b) How should the information be published?

i) Are the annual accounts and financial statements the right place for it?
ii) Is this information already available elsewhere, or could it be?
iii) How will the new disclosure affect the overall balance of the annual accounts and financial statements?

3.4.2.27C A local authority may summarise prior period information, subject to the need to retain the information necessary for users to understand the current period financial statements.

Notes to the financial statements

3.4.2.88B An authority shall disclose the basis on which it has assessed materiality for the financial statements, including group financial statements where presented, and the users considered in doing so.

3.9 RELATED PARTY DISCLOSURES

Definitions

3.9.2.5 **Material.** –the definition and guidance provided in Section 2.1 applies~~Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.~~.