

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 MARCH 2019**

Title of report	<b>2018/19 MATERIALITY LEVEL AND ACCOUNTING POLICIES</b>
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Purpose of report	To review and approve the accounting policy and materiality levels for 2018/19 financial statements
Council priorities	Value for Money
Implications:	
Financial/Staff	None identified.
Link to relevant CAT	None.
Risk Management	None identified.
Equalities Impact Screening	Not applicable.
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	External Audit
Background papers	None.
Recommendations	<p><b>TO CONSIDER AND APPROVE:</b></p> <p><b>1. THE DRAFT ACCOUNTING POLICIES FOR 2018/19 FINANCIAL STATEMENTS; AND</b></p> <p><b>2. THE MATERIALITY LIMITS AS SET OUT IN APPENDIX B.</b></p>

## **1.0 BACKGROUND**

- 1.1 The accounting policies and materiality levels need to be reviewed and agreed, prior to the beginning of the closure of the accounts process.

## **2.0 ACCOUNTING POLICIES**

- 2.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
- 2.2 Accounting policies are defined in the Code as “the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements”.
- 2.3 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

*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.*

- 2.4 The majority of accounting policies were previously agreed by the Head of Finance and Section 151 Officer and applied in the preparation of the 2017/18 Statement of Accounts remain appropriate for the preparation of 2018/19 Statement of Accounts. Paragraph 3.27 of the Audit and Governance Committee’s Terms of Reference (approved December 2018) requires the Committee to ‘consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council’. It is therefore considered good practice to the committee to have greater visibility over these accounting policies before they are applied.
- 2.5 The proposed accounting policies contained in Appendix A are therefore presented to Committee for approval. It is planned that this will take place on an annual basis going forward.
- 2.6 In order to comply with CIPFA Code of Practice for Local Authority Accounting in the UK (the Code) 2018/19, two accounting policies require updating this year; paragraph 2.7 below provides details of those policies which need amending.
- 2.7 The proposed accounting policies are in line with those used in the preparation of the 2017/18 accounts, with the exception of:
- a) 2. Accruals of Income and Expenditure – amended due to the adoption of IFRS 15 Revenues from Contracts with Customers, as identified in the Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19 report.
  - b) 10. Financial Instruments – amended due to the adoption of IFRS 9 Financial Instruments, as identified in the Changes to the Code of Practice for Local

Authority Accounting in the UK for 2018/19 report. Work is ongoing to determine the classification of individual financial instruments.

- 2.8 Specifically, section 23 of the accounting policies will be updated once CIPFA share their end of year bulletin outlining the accounting standards that have been issued but that will not be adopted for application from April 2019 (and therefore the 2019/20 accounts) or beyond.
- 2.9 There are no new accounting policies and the full list of accounting policies the council proposes to disclose in its Statement of Accounts notes are detailed in Appendix A.

### **3.0 MATERIALITY LEVELS**

- 3.1 Materiality is defined in paragraph 2.3 above.
- 3.2 Setting materiality levels enables the finance team to identify significant variances and items that need disclosing in the financial statements.
- 3.3 Levels for the 2018/19 financial statements are set out in Appendix B for approval. The levels of materiality agreed by this committee will be used in the preparation of the financial statements and information provided for external audit purposes.
- 3.4 External Audit apply their own test of material misstatements. This is detailed in their external audit plan, which is a separate report on this agenda. The internal materiality levels presented to committee for approval in Appendix B have been set in reference to the external auditors own materiality levels.