APPENDIX 5

Materiality thresholds

Adoption of a materiality threshold for the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire.

Financial statements should present a true and fair view. An item that is not material will not be relevant, cannot influence a user's decisions and need not be reported in the financial statements.

Hence, ignoring immaterial items can save time and allows users of the accounts to focus on the main issues. However, materiality is subjective and requires professional judgement. It is inappropriate to set a fixed monetary value without reference to the context of a transaction. Factors which may make even small values material include:

- related party transactions;
- a transaction which changes a surplus to a deficit, or vice versa;
- non compliance with laws or regulations;
- deterioration in relationships with key stakeholders.

The guidance notes to the Code expect practitioners to presume that the Code should be followed until it can be established that a less rigorous approach does not lead users to misread the financial statements. There will be examples where no simplification is acceptable, some of which are listed above. However, in many cases a more straightforward approach will be considered the most pragmatic method. In such cases, the authority should have a default assessment of materiality for its financial statements.

It is proposed that the PCC Group, the PCC and Chief Constable does not adopt a specific materiality figure in the preparation of its accounts but considers each area based on the nature of the transaction or disclosure in question. This will help inform internal considerations about the application of policies and accounting standards where doing so will not misrepresent the Group's position.

Table 1: proposed materiality thresholds for 2015/16 accounts

Policy Area	Suggested de minimis	Rationale and Consequences
All areas where there is a risk of a misreading the overall financial position	None	No specific materiality figure. Consideration based on the nature of the transaction or disclosure in question.
Accruals	£5,000	Budget holders can identify accruals to any level they wish but this de minimis allows them to focus on items that could materially affect individual budgets if they wish.
Capitalisation of Property, Plant and Equipment	£10,000	Assets which meet the £10k de minimis level and also meet the other capitalisation criteria will be treated as capital. The PCC retains the discretion to consider capitalisation of other expenditure on a case by case basis, in particular where equipment with a life of more than a year is purchased in bulk as part of a specific programme.
Componentisation of Property, Plant and Equipment	£500,000	Only components which have a material impact on depreciation should be recognised. This will only happen when components of significant value have a shorter life than the main building asset. More detail is given in the componentisation policy.
Contingent liabilities	£100,000	This allows the Group to identify any potential liabilities that will likely be material to the future financial position.
Inventory	£5,000	The de minimis limits the time consuming counting of low volume stock which won't be material to the financial statements if charged to revenue. Most stock relates to diesel, vehicle parts and stores balances.