Exposure Draft 97
April 2026
Comments due: August 28, 2026

IPSAS®

Proposed IPSAS® Practice Statement

Making Materiality Judgments

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting and sustainability reporting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances and sustainable development.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB SRS™ Standards, IPSAS® Practice Statements, and Recommended Practice Guidelines™ (RPG™), for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. IPSAS Practice Statements are non-mandatory guidance. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, IPSAS Practice Statements, and RPG Guidelines do not establish requirements. IPSASB SRS Standards, IPSAS Practice Statements, and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft (ED) 97, IPSAS Practice Statement, *Making Materiality Judgments,* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by August 28, 2026**.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

IPSASB's Making Materiality Judgments Project

This project aims to address the difficulties in making materiality judgments when preparing general purposes financial reports. These difficulties can contribute to a disclosure problem, in which entities provide too much irrelevant information and not enough relevant information in their financial statements.

This project is being undertaken in three distinct phases:

- **Phase 1**—Enhanced the consistency of the definition of 'material' between the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework) and IPSAS Standards and clarified that decisions about materiality are intended to reflect the information needs of the primary users of general purpose financial statements. The IPSASB issued a final pronouncement on October 27th, 2025, the *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework).
- **Phase 2**—Develop non-mandatory guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards.

  The IPSASB expects to adapt IFRS® Practice Statement 2 *Making Materiality Judgements* (Practice Statement 2), to the public sector context. One of the public sector factors to be addressed in Phase 2 is the broader scope of the term 'primary users' in the IPSAS Standards compared to IFRS® Accounting Standards.
- **Phase 3**—Develop educational material on making materiality judgments when preparing sustainability reports in accordance with IPSASB SRS Standards, drawing on ISSB educational material.

This ED proposes the development of non-mandatory guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards aligned with Practice Statement 2, in line with the scope of Phase 2 of the project

Objective of the ED

The objective of this ED is to develop non-mandatory guidance on making materiality judgments when preparing financial statements in accordance with IPSAS Standards, aligned with Practice Statement 2, adapted to the public sector context.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. Comments must be submitted in English.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1:

The IPSASB decided to issue developing non-mandatory guidance in making materiality judgments when preparing financial statements aligned with Practice Statement 2 (see paragraphs BC10–BC22). Do you agree with how the IPSASB adapted Practice Statement 2 guidance for the public sector context? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

The ED includes an Alternative View that the non-mandatory guidance in [draft] IPSAS Practice Statement, Making Materiality Judgments, could benefit from further public-sector adaptation.

Specific Matter for Comment 2:

Do you find the examples on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards helpful? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those examples would be helpful to entities.

EXPOSURE DRAFT 97, IPSAS PRACTICE STATEMENT, *MAKING MATERIALITY JUDGMENTS*

CONTENTS

INTRODUCTION

IN1. The objective of general purpose financial statements is to provide financial information about the entity that is useful to primary users[1] of financial statements for accountability purposes and for making decisions. The entity identifies the information necessary to meet that objective by making appropriate materiality judgments.

IN2. The aim of this [draft] IPSAS Practice Statement, *Making Materiality Judgments* is to provide reporting entities with guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Accounting Standards.

IN3. The need for materiality judgments is pervasive in the preparation of financial statements. An entity makes materiality judgments when making decisions about recognition and measurement as well as presentation and disclosure. Requirements in IPSAS Standards only need to be applied if their effect is material to the complete set of financial statements.

IN4. This [draft] IPSAS Practice Statement:

(a) Provides an overview of the general characteristics of materiality.

(b) Presents a four-step process an entity may follow in making materiality judgments when preparing its financial statements (materiality process). The description of the materiality process provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgments.

(c) Provides guidance on how to make materiality judgments in specific circumstances, namely, how to make materiality judgments about prior-period information, errors, and covenants.

IN5. Whether information is material is a matter of judgment and depends on the facts involved and the circumstances of a specific entity. This [draft] IPSAS Practice Statement illustrates the types of factors that the entity should consider when judging whether information is material.

IN6. An [draft] IPSAS Practice Statement is non-mandatory guidance developed by the International Public Sector Accounting Standards Board. It is not a Standard. Therefore, its application is not required to state compliance with IPSAS Standards.

IN7. This [draft] IPSAS Practice Statement includes examples illustrating how an entity might apply some of the guidance in the [draft] IPSAS Practice Statement based on the limited facts presented. The analysis in each example is not intended to represent the only manner in which the guidance could be applied.

[1] Throughout the [draft] IPSAS Practice Statement, the term 'primary users' refers to service recipients and their representatives, and resource providers and their representatives.

IPSAS PRACTICE STATEMENT, *MAKING MATERIALITY JUDGMENTS*

Objective

1. This [draft] IPSAS Practice Statement, *Making Materiality Judgments* provides reporting entities with non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Accounting Standards.

2. The guidance may also help other parties involved in financial reporting to understand how an entity makes materiality judgments when preparing such financial statements.

Scope

3. The [draft] IPSAS Practice Statement is applicable when preparing financial statements in accordance with IPSAS Standards. It is not intended for entities applying the Cash Basis IPSAS Accounting Standard.

4. The [draft] IPSAS Practice Statement provides non-mandatory guidance; therefore, its application is not required to state compliance with IPSAS Standards.

General Characteristics of Materiality

Definition of Material

5. IPSAS 1, *Presentation of Financial Statements* provides the following definition of material information in general purpose financial statements[2]:

   Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's general purpose financial statements prepared for that reporting period.[3]

   Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.[4]

6. When making materiality judgments, an entity needs to take into account how information could reasonably be expected to influence the discharge of accountability by the entity or the decisions that the primary users of its financial statements make on the basis of those statements (see paragraphs 13–25).[5]

7. The objective of financial statements is to provide financial information about an entity that is useful to primary users for accountability purposes and for decision-making purposes. The entity identifies the information necessary to meet that objective by making appropriate materiality judgments.

Materiality Judgments are Pervasive

8. The need for materiality judgments is pervasive in the preparation of financial statements. An entity makes materiality judgments when making decisions about recognition, measurement, presentation and disclosure. Requirements in IPSAS Standards only need to be applied if their effect is material to the complete set of financial statements,[6] which includes the primary financial statements and the notes.[7] However, it is

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[2] This definition is consistent with the description of materiality in the Conceptual Framework.

[3] See paragraph 7 of IPSAS 1, *Presentation of Financial Statements*.

[4] Paragraph 12A of IPSAS 1.

[5] See paragraph 13 of IPSAS 1.

[6] In this [draft] IPSAS Practice Statement, the phrases 'complete set of financial statements' and 'financial statements as a whole' are used interchangeably.

[7] For the purposes of this [draft] IPSAS Practice Statement, a complete set of financial statements comprises: the statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement, when the entity makes publicly available its approved budget, a comparison of budget and actual amounts, notes, and comparative information. See paragraph 21 of IPSAS 1.

inappropriate for the entity to make, or leave uncorrected, immaterial departures from IPSAS Standards to achieve a particular presentation of its financial position, financial performance or cash flows.[8]

Recognition and Measurement

9. IPSAS Standards set out reporting requirements that the International Public Sector Accounting Standards Board (IPSASB) has concluded will lead to financial statements that provide information about the financial position, financial performance and cash flows of an entity that is useful to the primary users of those statements. The entity is only required to apply recognition and measurement requirements when the effect of applying them is material.

Example A—Materiality Judgments on the Application of Accounting Policies

Background

An entity has a policy of capitalizing expenditures on items of property, plant and equipment in excess of a specified threshold and recognizing any smaller amounts as an expense.

Application

IPSAS 45, *Property, Plant and Equipment* requires that the cost of an item of property, plant and equipment is recognized as an asset when the criteria in paragraph 6 of IPSAS 45 are met.

The entity has assessed that its accounting policy—not capitalizing expenditure below a specific threshold—will not have a material effect on the current-period financial statements or on future financial statements, because information reflecting the capitalization and amortization of such expenditure could not reasonably be expected to influence decisions made by the primary users of the entity's financial statements.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the entity's financial position, financial performance or cash flows, the entity's financial statements comply with IPSAS 45. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Example B—Materiality Judgments on the Application of Accounting Policies

Background

A Development Finance Institution provides low-interest short-term loans as part of a financing program targeting low-income households to retrofit their windows to reduce energy consumption.

The entity has a policy to measure the loans at amortized cost and to recognize interest revenue using simple interest.

Application

IPSAS 41 *Financial Instruments* requires interest revenue to be recognized using the effective interest method.

The entity has assessed its accounting policy—recognizing interest revenue using simple interest rather than calculating an effective interest rate. In conducting this assessment, the entity has assessed whether the use of simple interest at the individual loan and loan portfolio level for the specific program (i.e., individual and collective basis) materiality affects:

- Interest revenue recognized in surplus or deficit; and
- The carrying amount of loan receivables at the reporting date.

8 See paragraph 10 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

It concluded, it will not have a material effect on the current-period financial statements or on future financial statements, because of the nature of the loans (i.e., 12 months term, low interest and principal to be paid at maturity and no transaction costs), the program duration (3 years) and its immaterial size compare to the Development Finance Institution overall loan portfolio.

Provided that such a policy does not have a material effect on the financial statements and was not set to intentionally achieve a particular presentation of the entity's financial position, financial performance or cash flows, the entity's financial statements comply with IPSAS 41. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Presentation and Disclosure

10. An entity need not provide a disclosure specified by an IPSAS Standard if the information resulting from that disclosure is not material. This is the case even if the Standard contains a list of specific disclosure requirements or describes them as 'minimum requirements'. Conversely, the entity must consider whether to provide information not specified by IPSAS Standards if that information is necessary for primary users to understand the impact of particular transactions, other events and conditions on the entity's financial position, financial performance and cash flows.[9]

Example C—Materiality Judgments on Disclosures Specified by IPSAS Standards

Background

An entity presents property, plant and equipment (PP&E) as a separate line item in its statement of financial position.

Application

IPSAS 45, *Property, Plant and Equipment* sets out specific disclosure requirements for PP&E, including the disclosure of the amount of contractual commitments for the acquisition of PP&E (paragraph 70(c) of IPSAS 45).

When preparing its financial statements, the entity assesses whether disclosures specified in IPSAS 45 are material information. Even if PP&E is presented as a separate line item in the statement of financial position, not all disclosures specified in IPSAS 45 will automatically be required. In the absence of any qualitative considerations (see paragraphs 48–53), if the amount of contractual commitments for the acquisition of PP&E is not material, the entity is not required to disclose this information.

[9] See paragraphs 29(c) of IPSAS 1.

Example D—Materiality Judgments on Presentation Specified by IPSAS Standards

Background

IPSAS 1 requires that an entity separately present each material class of similar items in the financial statements, and items of a dissimilar nature or function to be presented separately, unless they are immaterial (paragraph 45 of IPSAS 1).

During the reporting period, an entity incurred cybersecurity-related expenses, such as system upgrades, monitoring services, and incident response support. Cybersecurity costs are included within “Supplies and services” in the statement of financial performance. This policy is based on a quantitative materiality judgment that compares cybersecurity costs to the entity's total expenses for the reporting period. The amount of the expense on its own was not considered to be material information.

Application

In reassessing its accounting policy in the current period, the entity notes there has been heightened parliamentary and public scrutiny of cybersecurity risks affecting government systems. Therefore, it is reasonable to conclude that the separate presentation of cybersecurity expenses could reasonably be expected to influence the decisions of primary users of its financial statements. Additionally, providing information on the cybersecurity costs incurred during the reporting period to safeguard sensitive citizen and critical public infrastructure information is expected to provide material information to the entity’s primary users on the entity's discharge of accountability.

Example E—Materiality Judgments that Lead to the Disclosure of Information in Addition to the Specific Disclosure Requirements in IPSAS Standards

Background

Country A, as part of an international agreement, is committed to introducing regulations to reduce the use of carbon-based energy for the generation of electricity in its jurisdiction. The country’s Energy Regulator has not yet enacted a regulation banning carbon-based energy in the national legislation at the end of the reporting period.

Country A’s Power Generation entity owns a coal-fired power station. During the reporting period, the entity recorded an impairment loss on its coal-fired power station, reducing the carrying amount of the power station to its recoverable amount. No goodwill or intangible assets with an indefinite useful life were included in the cash-generating unit.

Application

Paragraph 123 of IPSAS 26, *Impairment of Cash-Generating Assets* does not require an entity to disclose the assumptions used to determine the recoverable amount of a tangible asset, unless goodwill or intangible assets with an indefinite useful life are included in the carrying amount of the cash-generating unit.

Nevertheless, Country A’s Power Generation entity has concluded that the assumptions about the likelihood of national enactment of regulations to reduce the use of carbon-based energy, as well as about the enactment plan, it considered in measuring the recoverable amount of its coal-fired power station could reasonably be expected to influence decisions primary users make on the basis of the entity’s financial statements. Hence, information about those assumptions is necessary for primary users to understand the impact of the impairment on the entity’s financial position, financial performance, and cash flows. Therefore, even though not specifically required by IPSAS 26, Country A’s Power Generation entity concludes that its assumptions about the likelihood of national enactment of regulations to reduce the use of carbon-based energy, as well as about the enactment plan, constitute material information and discloses those assumptions in its financial statements.

Judgment

11. When assessing whether information is material to the financial statements, an entity applies judgment to decide whether the information could reasonably be expected to influence the discharge of accountability by the entity or decisions that primary users make on the basis of those financial statements. When applying such judgment, the entity considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users.

12. Because an entity's circumstances change over time, materiality judgments are reassessed at each reporting date in the light of those changed circumstances.

Primary Users and their Information Needs

13. When making materiality judgments, an entity needs to consider the impact information could reasonably be expected to have on the primary users of its financial statements. Those primary users are service recipients, such as citizens, and their representatives and resource providers, such as taxpayers, donors, and lenders. and their representatives (hereafter referred to as "service recipients and resource providers", unless identified otherwise) —those users who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes and must rely on general purpose financial statements for much of the financial information they need.[10] In addition to those primary users, other parties such as government statisticians, analysts, the media, financial advisors, public interest and lobby groups, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies, and in some cases, lending institutions and providers of development and other assistance, may be interested in financial information about the entity and may find the financial statements useful. However, the financial statements are not primarily directed at these other parties.[11]

14. Because primary users include potential service recipients and resource providers, it would be inappropriate for an entity to narrow the information provided in its financial statements by focusing only on the information needs of existing service recipients and resource providers.

Example F—Identification of Primary Users

Background

A local government identifies ratepayers as common users of its financial statements, as they are resource providers (i.e., pay for water and waste management) to the municipality.

Application

The local government concludes that, in addition to ratepayers, the following are also primary users of its financial statements:

- Service recipients: citizens and parliamentarians (acting on behalf of taxpayers); and
- Resource providers: taxpayers, government grantors, and creditors.

Therefore, when making materiality judgments in preparing its financial statements, the local government's disclosures cannot be limited to its ratepayers' information needs. The local government also considers the information needs of other primary users, such as government grantors, parliamentarians (acting on behalf of taxpayers), and creditors, when making those judgments.

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[10] See paragraph 2.4 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (*Conceptual Framework*).

[11] See paragraph 2.6 of the Conceptual Framework.

15. When making materiality judgments, an entity also assumes that primary users have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read financial statements, and to review and analyze the information included presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in financial statements, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in financial statements in a manner that is understandable to a wide range of users.[12]

Discharge of Accountability by the Entity and Decisions Made by Primary Users

16. An entity needs to consider what type of decisions its primary users make on the basis of the financial statements and, consequently, what information they need to make those decisions.

17. The primary users of an entity's financial statements make decisions about the discharge of accountability of the entity by holding it accountable for the resources entrusted to it, as well as decisions about the performance of the entity during the reporting period, the entity's ability to meet its obligations as they become due, and an entity's ability to continue to provide services currently provide and other operations over the long term.

18. An entity is accountable to those that provide it with resources, and to those that depend on it to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulations, or other authorities that govern its service delivery and other operations.[13]

19. For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

    (a) The performance of the entity during the reporting period in, for example:

        (i) Meeting its service delivery and other operating and financial objectives;

        (ii) Managing the resources it is responsible for;

        (iii) Complying with relevant budgetary, legislative, and other authorities regulating the raising and use of resources;

    (b) The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;

    (c) The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period; and

    (d) The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.[14]

20. The information service recipients and resource providers need for these purposes are likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether

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[12] See paragraph 3.18 of the Conceptual Framework.

[13] See paragraph 2.8 of the Conceptual Framework.

[14] See paragraph 2.11 of the Conceptual Framework.

(a) The entity is using resources economically, efficiently, effectively, and as intended, and whether such use is in their interest;

(b) The range, volume, and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and

(c) Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.[15]

21. Resource providers will require information as input to assessments of such matters as whether the entity:

(a) Is achieving the objectives established as the justification for the resources raised during the reporting period

(b) Funded current operations from funds raised in the current period from taxes or borrowings or other sources; and

(c) Is likely to need additional (or less) resources in the future, and the likely sources of those resource.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended.[16]

22. Financial information can make a difference in decisions if it has confirmatory value, predictive value or both.[17] When making materiality judgments, an entity needs to assess whether information could reasonably be expected to influence primary users' decisions, rather than assessing whether that information alone could reasonably be expected to change their decisions.

Meeting Primary Users' Information Needs

23. The objective of financial statements is to provide primary users with financial information that is useful to them for accountability and decision-making purposes. However, it is unlikely that general purpose financial statements will provide all the information that primary users need for accountability and decision-making purposes.[18] Therefore, the entity aims to meet the common information needs of its primary users. It does not aim to address specialized information needs—information needs that are unique to particular users.

Example G—Primary Users' Unique or Individual Information Requests

Background

A school board provides educational materials to community groups within its jurisdiction. A donor, one of the resource providers, is particularly interested in information about the entity's expenditures in a specific location because the donor resides there. The school board's operations are primarily funded by a transfer from a higher level of government; as such, the school board is not dependent on donations to provide educational materials to community groups. Providing information of a specific community group could not reasonably be expected to influence decisions that other primary users make on the basis of the entity's financial statements.

Application

In making its materiality judgments, the entity does not need to consider the specific information needs of that single resource provider. The entity concludes that information about its expenditure in the specific location is

[15] See paragraph 2.12 of the Conceptual Framework.

[16] See paragraph 2.13 of the Conceptual Framework.

[17] See paragraph 3.6 of the Conceptual Framework.

[18] See paragraph 2.31 of the Conceptual Framework.

immaterial information for its primary users as a group and therefore decides not to provide it in its financial statements.

24. To meet the common information needs of its primary users, an entity first separately identifies the information needs that are shared by users within one of the two categories of primary users defined in the Conceptual Framework—for example service recipients—then repeats the assessment for resource providers. The total of the information needs identified is the set of common information needs the entity aims to meet.

25. In other words, the assessment of common information needs does not require identifying information needs shared across all service recipients and resource providers. Some of the identified information needs will be common to both categories, but others may be specific to only one category. If an entity were to focus only on those information needs that are common to all categories of primary users, it might exclude information that meets the needs of only one category.

Impact of Publicly Available Information

26. The primary users of financial statements generally consider information from sources other than just the financial statements. For example, they might also consider other sections of the annual report, information about the industry or governmental sector an entity operates in, its peers, and the state of the economy, the entity's public statements, as well as other documents the entity has published.

27. However, the financial statements are required to be a comprehensive document that provides information about the financial position, financial performance and cash flows of an entity that is useful to primary users for accountability and decision making purposes. Consequently, the entity assesses whether information is material to the financial statements, regardless of whether such information is also publicly available from another source.

28. Moreover, public availability of information does not relieve an entity of the obligation to provide material information in its financial statements.

Example H—Impact of an Entity's Public Statement on Materiality Judgments

Background

An entity undertook a public sector combination in the reporting period. The acquisition doubled the size of the entity's operations. On the acquisition date, the entity issued a public statement providing an extensive explanation of the primary reasons for the acquisition and a description of how it obtained control over the acquired entity, together with other information related to the acquisition.

Application

In preparing its financial statements, the entity first considered the disclosure requirements in IPSAS 40, *Public Sector Combinations*. Paragraph 120(d) of IPSAS 40 requires an entity to disclose, for each public sector combination that occurs during the reporting period, 'the primary reasons for the acquisition and a description of how the acquirer obtained control of the acquiree'.

The entity concludes that information about the public sector combination is material because the acquisition is expected to have a significant impact on the entity's operations, due to the overall size of the acquisition compared with the size of the entity. In these circumstances, even though information relating to the primary reasons for the public sector combination and the description of how it obtained control is already included in a public statement, the entity needs to provide the information in its financial statements.

Interaction with Local Laws and Regulations

29. An entity's financial statements must comply with the requirements in IPSAS Standards, including requirements related to materiality (materiality requirements), for the entity to state its compliance with those Standards. Hence, an entity that wishes to state compliance with IPSAS Standards cannot provide less information than the information required by the Standards, even if local laws and regulations permit otherwise.

30. Nevertheless, local laws and regulations may specify requirements that affect what information is provided in the financial statements. In such circumstances, providing information to meet legal or regulatory requirements is permitted by IPSAS Standards, even if that information is not material according to the materiality requirements in the Standards. However, such information must not obscure information that is material according to IPSAS Standards.[19]

Example I—Information that is Immaterial According to IPSAS Standards Required by Local Laws and Regulations

Background

Regulation requires all entities to disclose, in their financial statements, the aggregate amount of R&D expenditure incurred during the period when seeking reimbursement for the R&D expenditure from a higher-level government entity.

In the current reporting period, the entity recognized a small amount of expenditure on R&D activities as an expense. No R&D expenditure was capitalized during the period.

When preparing its financial statements, the entity assessed the disclosure of information about R&D expenditure, required in paragraph 125 of IPSAS 31, *Intangible Assets*, incurred during the period as immaterial, for IPSAS purposes.

Application

To comply with local regulations, the entity discloses in its financial statements information about R&D expenditure incurred during the period. IPSAS Standards permit the entity to disclose that information in its financial statements, but the entity needs to organize its disclosures to ensure that material information is not obscured.

Example J—Information that is Material According to IPSAS Standards not Required by Local Laws and Regulations

Background

A Government entity is required by legislation to disclose to its relevant finance ministry significant acquisitions and disposals of property, plant and equipment (PP&E), when the cost of the PP&E acquired or disposed of exceeds a specified percentage of the total costs of assets of an entity.

In the current reporting period, the entity disposed of PP&E below the legislative threshold specified in the regulation. This transaction was with a related party, which paid the entity less than the fair value of the item disposed of.

When preparing its financial statements, the entity applied judgment and concluded that information about the details of the disposal was material, mainly because of the terms of the transaction and the fact it was with a related party.

Application

[19] See paragraph 12A(e) on IPSAS 1.

To comply with IPSAS 20, *Related Party Disclosures* paragraphs 27 and because the disposal of PP&E is considered material, the entity discloses details of that disposal even though regulations require disclosure of PP&E disposals only if the cost of the PP&E acquired or disposed of exceeds a specified percentage of total assets.

Making Materiality Judgments

Overview of the Materiality Process

31. An entity may find it helpful to follow a systematic process in making materiality judgments when preparing its financial statements. The four-step process described in the following paragraphs is an example of such a process. This description provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgments. In this IPSAS Practice Statement, this four-step process is called the 'materiality process'.

32. The materiality process describes how an entity could assess whether information is material for the purposes of presentation and disclosure, as well as for recognition and measurement. The process illustrates one possible way to make materiality judgments, but it incorporates the materiality requirements an entity must apply to state compliance with IPSAS Standards. The materiality process considers potential omission and potential misstatement of information, as well as unnecessary inclusion of immaterial information and whether immaterial information obscures material information. In all cases, the entity needs to focus on how the information could reasonably be expected to influence the discharge of accountability by the entity as well as decisions that the primary users make on the basis of its financial statements.

33. Judgment is involved in assessing materiality when preparing financial statements. The materiality process is designed as a practice guide to help an entity apply judgment in an efficient and effective way.

34. The materiality process is not intended to describe the assessment of materiality for legal and regulatory purposes. An entity refers to such requirements to assess whether it is compliant with local laws and regulations.

A Four-Step Materiality Process

35. The steps identified as a possible approach to the assessment of materiality in the preparation of the financial statements are, in summary:

    (a) Step 1—Identify. Identify information that has the potential to be material.

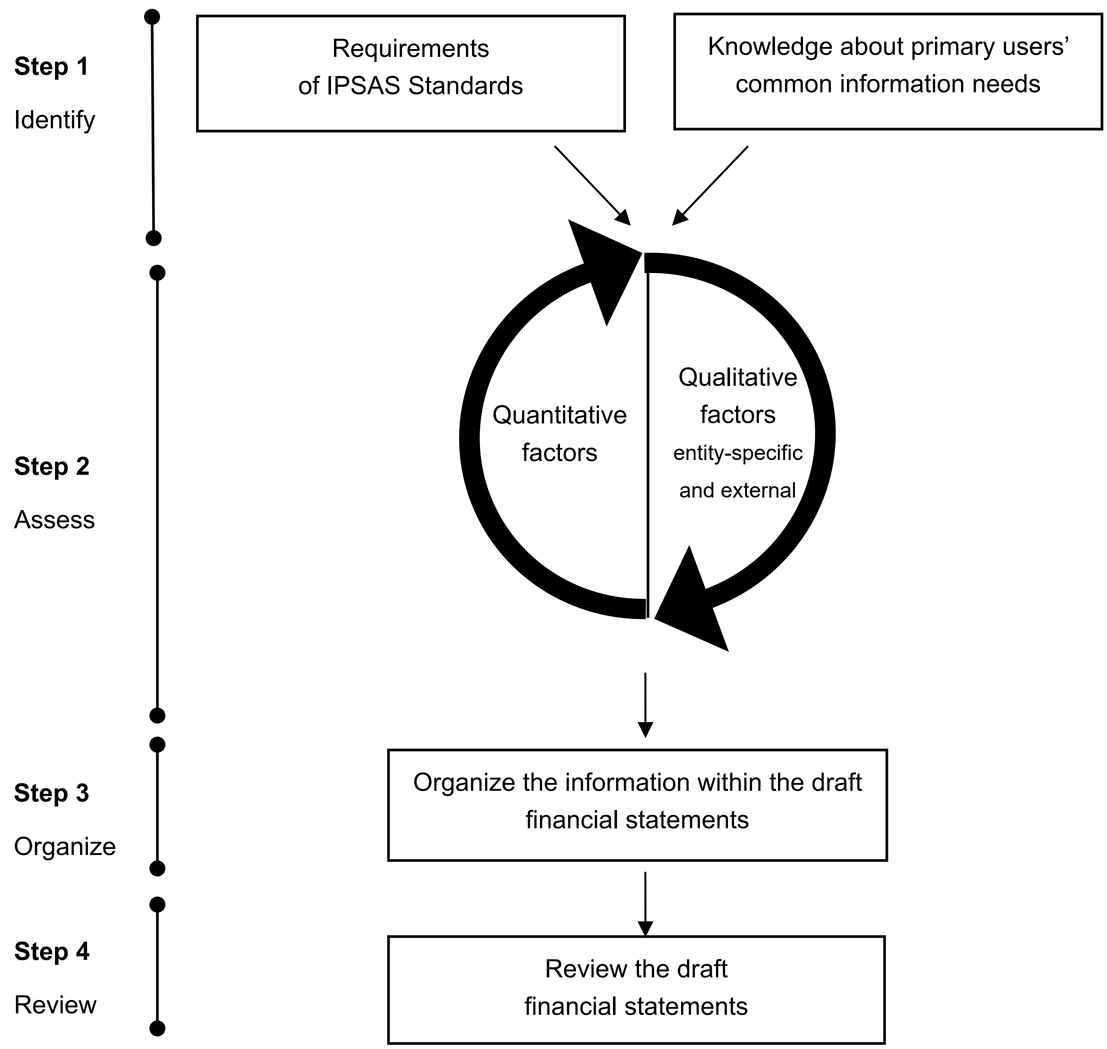
    (b) Step 2—Assess. Assess whether the information identified in Step 1 is, in fact, material.

    (c) Step 3—Organize. Organize the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users.

    (d) Step 4—Review. Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.

36. When preparing its financial statements, an entity may rely on materiality assessments from prior periods, provided that it reconsiders them in the light of any change in circumstances and of any new or updated information.

Diagram 1—The Four-Step Materiality Process



Step 1—Identify

37. An entity identifies information about its transactions, other events, and conditions that primary users might need to understand for accountability and decision making purposes.

38. In identifying this information, an entity considers, as a starting point, the requirements of the IPSAS Standards applicable to its transactions, other events, and conditions.

39. When the IPSASB develops an IPSAS Standard, it also considers the balance between the benefits of providing information and the costs of complying with the requirements in that Standard. However, the cost of applying the requirements in the Standards is not a factor for an entity to consider when making materiality judgments—the entity should not consider the cost of complying with requirements in IPSAS Standards, unless there is explicit permission in the Standards.

40. An entity also considers its primary users' common information needs (as explained in paragraphs 22–24) to identify any information—in addition to that specified in IPSAS Standards—necessary to enable primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows (see paragraph 10). Service recipients and resource

providers need information about the performance of the entity during the reporting period, the liquidity and solvency of the entity, the sustainability of the entity's service delivery and the capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.[20]

41. The output of Step 1 is a set of potentially material information.

Step 2—Assess

42. An entity assesses whether the potentially material information identified in Step 1 is, in fact, material. In making this assessment, the entity needs to consider whether the information could reasonably be expected to influence the discharge of accountability by the entity or the decisions that primary users make on the basis of the financial statements. The entity performs this assessment in the context of the financial statements as a whole.

43. An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or amount judged in the particular circumstances of each entity.[21] Therefore, making materiality judgments involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality (see paragraphs 54–57).

44. The following paragraphs describe some common 'materiality factors' that an entity should use to help identify when an item of information is material. These factors are organized into the following categories:

(a) Quantitative; and

(b) Qualitative—either entity-specific or external.

45. The output of Step 2 is a preliminary set of material information. For presentation and disclosure, this involves decisions about what information an entity needs to provide in its financial statements, and in how much detail[22] (including identifying appropriate levels of aggregation an entity provides in the financial statements). For recognition and measurement, the output of Step 2 involves the identification of information that, if not recognized or otherwise misstated, could reasonably be expected to influence the discharge of accountability by the entity or the decisions that primary users make on the basis of the entity's financial statements.

Quantitative Factors

46. An entity ordinarily assesses whether information is quantitatively material by considering the amount of the impact of the transaction, other event or condition against measures of the entity's financial position, financial performance and cash flows. The entity makes this assessment by considering not only the amount of the impact it recognizes in its primary financial statements but also any unrecognized items that could ultimately affect primary users' overall perception of the entity's financial position, financial performance and cash flows (e.g., contingent liabilities or contingent assets). The entity needs to assess whether the impact is of such an amount that information about the transaction, other event or condition could reasonably be expected to influence the discharge of accountability by the entity or the decisions that its primary users make on the basis of the entity's financial statements.

47. Identifying the measures against which an entity makes this quantitative assessment is a matter of judgment. That judgment depends on which measures are of great interest to the primary users of the entity's financial

[20] See paragraph 2.11 of the *Conceptual Framework*.

[21] See paragraph 12A of IPSAS 1.

[22] See paragraph 45 of IPSAS 1.

statements. Examples include measures of the entity's revenues and expenses, the entity's net assets/equity, financial position ratios and cash flow measures.

Qualitative Factors

48. For the purposes of this [draft] IPSAS Practice Statement, qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information.

49. In making materiality judgments, an entity considers both entity-specific and external qualitative factors. These factors are described separately in the following paragraphs. However, in practice, the entity may need to consider them together.

50. An entity-specific qualitative factor is a characteristic of the entity's transaction, other event or condition. Examples of such factors include, but are not limited to:

(a) Links to a policy or service delivery objective;

(b) Involvement of a related party of the entity;

(c) Uncommon, or non-standard, features of a transaction or other event or condition; or

(d) Unexpected variation or unexpected changes in budget or trends. In some circumstances, the entity might consider a quantitatively immaterial amount as material because of the unexpected variation compared to the prior-period amount provided in its financial statements.

51. The relevance of information to the primary users of an entity's financial statements can also be affected by the context in which the entity operates. An external qualitative factor is a characteristic of the context in which the entity's transaction, other event or condition occur that, if present, makes information more likely to influence the primary users' decisions. Characteristics of the entity's context that might represent external qualitative factors include, but are not limited to, the entity's geographical location, its industry or governmental sector, or the state of the economy or economies in which the entity operates.

52. Due to the nature of external qualitative factors, entities operating in the same context might share a number of external qualitative factors. Moreover, external qualitative factors could remain constant over time or could vary.

53. In some circumstances, if an entity is not exposed to a risk to which other entities in its geographical location or industry, or governmental sector are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

Interaction of Qualitative and Quantitative Factors

54. An entity could identify an item of information as material on the basis of one or more materiality factors. In general, the more factors that apply to a particular item, or the more significant those factors are, the more likely it is that the item is material.

55. Although there is no hierarchy among materiality factors, assessing an item of information from a quantitative perspective first could be an efficient approach to assessing materiality. If an entity identifies an item of information as material solely on the basis of the amount of the impact of the transaction, other event or condition, the entity does not need to assess that item of information further against other materiality factors. In these circumstances, a quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—can be a helpful tool in making a materiality judgment. However, a quantitative

assessment alone is not always sufficient to conclude that an item of information is not material. The entity should further assess the presence of qualitative factors.

56. The presence of a qualitative factor lowers the thresholds for the quantitative assessment. The more significant the qualitative factors, the lower those quantitative thresholds will be. However, in some cases an entity might decide that, despite the presence of qualitative factors, an item of information is not material because its effect on the financial statements is so small that it could not reasonably be expected to influence the discharge of accountability by the entity, or decisions made by its primary users.

57. In some other circumstances, an item of information could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions regardless of its amount—a quantitative threshold could even be reduced to zero. This might happen when information about a transaction, other event or condition is highly scrutinized by the primary users of an entity's financial statements. Such as disclosure of information about compliance or non-compliance with legislation, regulation, or other authority may be material because of its nature.[23] Moreover, a quantitative assessment is not always possible: non-numeric information might only be assessed from a qualitative perspective.

Example K—Information about a Related Party Transaction Assessed as Material

Background

An entity has identified total expenses as the measures of great interest to the primary users of its financial statements due to government's increased focus on cost containment. In the current reporting period, the entity signed a five-year contract with company ABC. Company ABC will provide the entity with maintenance services for the entity's offices for an annual fee. Company ABC is controlled by a member of the entity's key management personnel. Hence, company ABC is a related party of the entity.

Application

IPSAS 20, *Related Party Disclosures* requires an entity to disclose, for each related party transaction that occurred during the period, the nature of the related party relationship as well as information about the transaction and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

When preparing its financial statements, the entity assessed whether information about the transaction with company ABC was material.

The entity started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against total expenses. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the entity further assessed the presence of any qualitative factors.

As the Board noted in developing IPSAS 20, related parties may enter into transactions that unrelated parties would not enter into, and the transactions may be priced at amounts that differ from the price for transactions between unrelated parties.

The entity identified the fact that the maintenance agreement was concluded with a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The entity further assessed the transaction from a quantitative perspective to determine whether the impact of the transaction could reasonably be expected to influence primary users' decisions when considered with the fact that the transaction was with a related party (i.e., the presence of a qualitative factor lowers the quantitative threshold). Having considered that the transaction was with a related party, the entity concluded that the impact was large

23 See paragraph 3.33 of the *Conceptual Framework*.

enough to reasonably be expected to influence primary users' decisions. Hence, the entity assessed information about the transaction with company ABC as material and disclosed that information in its financial statements.

Example L—Information about a Related Party Transaction Assessed as Immaterial

Background

An entity has identified measures of its surplus/deficit as the measures of great interest to the primary users of its financial statements. The entity owns a large fleet of vehicles. In the current reporting period, the entity sold an almost fully depreciated vehicle to company DEF. The entity transferred the vehicle for total consideration consistent with its market value and its carrying amount. Company DEF is controlled by a member of the entity's key management personnel. Hence, company DEF is a related party of the entity.

Application

When preparing its financial statements, the entity assessed whether information about the transaction with company DEF was material.

As in Example L, the entity started its assessment from a quantitative perspective and evaluated the impact of the related party transaction against measures of the entity's surplus/deficit. Having initially concluded that the impact of the related party transaction was not material from a purely quantitative perspective, the entity further assessed the presence of any qualitative factors.

The entity transferred the vehicle for a total consideration consistent with its market value and its carrying amount. However, the entity identified the fact that the vehicle was sold to a related party as a characteristic that makes information about that transaction more likely to influence the decisions of its primary users.

The entity further assessed the transaction from a quantitative perspective but concluded that its impact was too small to reasonably be expected to influence primary users' decisions, even when considered with the fact that the transaction was with a related party. Information about the transaction with company DEF was consequently assessed as immaterial and not disclosed in the entity's financial statements.

Example M—Influence of External Qualitative Factors on Materiality Judgments

Background

A Development Bank holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other Development Banks hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country.

Application

Paragraph 38 of IPSAS 30, *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.

When preparing its financial statements, the Development Bank assessed whether the fact that it holds a very small amount of debt originating from that country was material information.

In making that assessment, the Development Bank considered the exposure to that particular debt faced by other Development Banks (external qualitative factor).

In these circumstances, the fact that the Development Bank is holding a very small amount of debt (or even no debt at all) originating from that country, while other Development Banks have significant holdings, provides the entity's primary users with useful information about how effective management has been at protecting the bank's resources from unfavorable effects of the economic conditions in that country.

The Development Bank assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

Step 3—Organize

58. Classifying, characterizing and presenting information clearly and concisely makes it understandable.[24] An entity exercises judgment when deciding how to communicate information clearly and concisely. For example, the entity is more likely to clearly and concisely communicate the material information identified in Step 2 by organizing it to:

(a) Emphasize material matters;

(b) Tailor information to the entity's own circumstances;

(c) Describe the entity's transactions, other events and conditions as simply and directly as possible without omitting material information and without unnecessarily increasing the length of the financial statements;

(d) Highlight relationships between different pieces of information;

(e) Provide information in a format that is appropriate for its type, e.g., tabular or narrative;

(f) Provide information in a way that maximizes, to the extent possible, comparability among entities and across reporting periods;

(g) Avoid or minimize duplication of information in different parts of the financial statements; and

(h) Ensure material information is not obscured by immaterial information.

59. Financial statements are less understandable for primary users if information is organized in an unclear manner. Similarly, financial statements are less understandable if an entity aggregates material items that have different natures or functions, or if material information is obscured,[25] for example, by an excessive amount of immaterial information.

60. Furthermore, an entity considers the different roles of primary financial statements and notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information or to disclose the information in the notes.

61. The output of Step 3 is the draft financial statements.

Step 4—Review

62. An entity needs to assess whether information is material both individually and in combination with other information[26] in the context of its financial statements as a whole. Even if information is judged not to be material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

63. When reviewing its draft financial statements, an entity draws on its knowledge and experience of its transactions, other events and conditions to identify whether all material information has been provided in the financial statements, and with appropriate prominence.

64. This review gives an entity the opportunity to 'step back' and consider the information provided from a wider perspective and in aggregate. This enables the entity to consider the overall picture of its financial position, financial performance and cash flows. In performing this review, the entity also considers whether:

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24 See paragraph 3.17 of the *Conceptual Framework*.

25 See paragraph 12A(c) of IPSAS 1.

26 See paragraph 12A of IPSAS 1.

(a) All relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time;

(b) Items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions;

(c) The information in the financial statements is communicated in an effective and understandable way, and organized to avoid obscuring material information; and

(d) The financial statements provide a fair presentation of the entity's financial position, financial performance and cash flows.[27]

65. The review may lead to:

(a) Additional information being provided in the financial statements;

(b) Greater disaggregation of information that had already been identified as material;

(c) Information that had already been identified as immaterial being removed from the financial statements to avoid obscuring material information; or

(d) Information being reorganized within the financial statements.

66. The review in Step 4 may also lead an entity to question the assessment performed in Step 2 and decide to re-perform that assessment. As a result of re-performing its assessment in Step 2, the entity might conclude that information previously identified as material is, in fact, immaterial, and remove it from the financial statements.

67. The output of Step 4 is the final financial statements.

Specific Topics

Prior-Period Information

68. An entity makes materiality judgments on the complete set of financial statements, including prior-period[28] information provided in the financial statements.

69. IPSAS Standards require an entity to present information in respect of the preceding period for all amounts reported in the current-period financial statements.[29] Furthermore, the Standards require the entity to provide prior-period information for narrative and descriptive information if it is relevant to understanding the current-period financial statements.[30] Finally, the Standards require the entity to present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of financial performance with comparative information for the preceding period, one statement of cash flows with comparative information for the preceding period, one statement of changes in net assets/equity with comparative information for the preceding period, and related notes.[31]

70. Assessing whether prior-period information is material to the current-period financial statements might lead an entity to:

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[27] See paragraph 27 of IPSAS 1.

[28] For this [Document Type], 'prior-period' should be read as 'prior-periods' if financial statements include amounts and disclosures for more than one prior period.

[29] Except when IPSAS Standards permit or require otherwise. See paragraph 53 of IPSAS 1.

[30] See paragraph 53 of IPSAS 1.

[31] See paragraph 53A of IPSAS 1.

(a) Provide more prior-period information than was provided in the prior-period financial statements (see paragraph 71); or

(b) Provide less prior-period information than was provided in the prior-period financial statements (see paragraph 72).

71. An entity also needs to consider any local laws or regulations, in respect of the prior-period information to be provided in financial statements, when making decisions on what prior-period information to provide in the current-period financial statements. Those local laws or regulations might require the entity to provide in the financial statements prior-period information in addition to the minimum comparative information required by the Standards. IPSAS Standards do not preclude the inclusion of such additional information, but require that it does not obscure material information.[32] However, an entity that wishes to state compliance with IPSAS Standards cannot provide less information than required by the Standards, even if local laws and regulations permit otherwise.

Prior-Period Information not Previously Provided

72. An entity must provide prior-period information needed to understand the current-period financial statements, regardless of whether that information was provided in the prior-period financial statements—this requirement is not conditional on whether the prior-period information was provided in the prior-period financial statements.[33] Consequently, the inclusion of prior-period information not previously included would be required if this is necessary for the primary users to understand the current-period financial statements.

Example N—Prior-Period Information not Previously Provided
Background In the prior period, an entity had a very small amount of debt outstanding. Information about this debt was appropriately assessed as immaterial in the prior period, and so the entity did not disclose any maturity analysis showing the remaining contractual maturities or other information that would otherwise be required by paragraph 46(a) of IPSAS 30, *Financial Instruments: Disclosures*. In the current period, the entity issued a large amount of debt. The entity concluded that information about debt maturity was material information and disclosed it, in the form of a table, in the current-period financial statements. **Application** The entity might conclude that including a prior-period debt maturity analysis in the financial statements would be necessary for primary users to understand the current-period financial statements. In these circumstances, a narrative description of the maturity of the prior-period balances of the outstanding debt might be sufficient.

Summarizing Prior-Period Information

73. Except to the extent required to comply with any local laws or regulations affecting the preparation of financial statements or their audit, an entity does not automatically reproduce in the current-period financial statements all the information provided in the prior-period financial statements. Instead, the entity may summarize prior-period information, retaining the information necessary for primary users to understand the current-period financial statements.

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[32] See paragraph 12A of IPSAS 1.

[33] See paragraph 53 of IPSAS 1.

Example O—Summarizing Prior-Period Information

Background

An entity disclosed, in the prior-period financial statements, details of a legal dispute which led to the recognition, in that period, of a provision. In accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* the entity disclosed in the prior-period financial statements a detailed description of uncertainties about the amount and timing of possible cash outflows, in respect of the dispute, together with the major assumptions made concerning future events.

Most of the uncertainties have been resolved in the current period, and, even though the liability has not been settled, a court pronouncement confirmed the amount already recognized in the financial statements by the entity.

The entity considered the relevant local laws, regulations and other reporting requirements and concluded that there were no prescribed obligations relating to the inclusion of prior-period information in the current-period financial statements.

Application

In these circumstances, on the basis of the requirements in IPSAS Standards, the entity may not need to reproduce in the current-period financial statements all of the information about the legal dispute provided in the prior-period financial statements. Because most of the uncertainties have been resolved, users of the financial statements for the current period may no longer need detailed information about those uncertainties. Instead, information about those uncertainties might be summarized and updated to reflect the current-period events and circumstances and the resolution of previously reported uncertainties.

Errors

74. Errors are omissions from and/or misstatements in an entity's financial statements arising from a failure to use, or misuse of, faithfully representative information that is available, or could reasonably be expected to be obtained.[34] Material errors are errors that individually or collectively could reasonably be expected to influence the discharge of accountability by the entity or decisions that primary users make on the basis of those financial statements. Errors may affect narrative descriptions disclosed in the notes as well as amounts reported in the primary financial statements or in the notes.

75. An entity must correct all material errors, as well as any immaterial errors made intentionally to achieve a particular presentation of its financial position, financial performance or cash flows, to ensure compliance with IPSAS Standards.[35] The entity should refer to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for guidance on how to correct an error.

76. Immaterial errors, if not made intentionally to achieve a particular presentation, do not need to be corrected to ensure compliance with IPSAS Standards. However, correcting all errors (including those that are not material) in the preparation of the financial statements lowers the risk that immaterial errors will accumulate over reporting periods and become material.

77. An entity assesses whether an error is material by applying the same considerations as outlined in the description of the materiality process. Making materiality judgments about errors involves both quantitative and qualitative considerations. The entity identifies information that, if misstated or omitted, could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions (as described in Step 1 and Step 2 of the materiality process). The entity also considers whether any identified errors are material on a collective basis (as described in Step 4 of the materiality process).

[34] See paragraph 7 of IPSAS 3.

[35] See paragraph 46 of IPSAS 3.

78. If an error is judged not to be material on its own, it might be regarded as material when considered in combination with other information. However, in general, if an error is individually assessed as material to an entity's financial statements, the existence of other errors that affect the entity's financial position, financial performance or cash flows in the opposite way, does not make the error immaterial, nor does it eliminate the need to correct the error.

Example P—Individual and Collective Assessment of Errors

Background

An entity has identified measures of its surplus/deficit as the measures of great interest to the primary users of its financial statements. During the current reporting period, the entity recognized:

(a) An expense accrual of CU100 that should not have been recognized. The accrual affected the line item 'Other operating expenses'; and

(b) The reversal of a provision of CU80 recognized in the previous period that should not have been reversed. The reversal affected the line item 'other operating income'.

Application

In assessing whether these errors are material to its financial statements, the entity did not identify the presence of any qualitative factors and thus made its materiality judgment solely from a quantitative perspective. The entity concluded that both errors were individually material because of their impact on its surplus/deficit.

In these circumstances, it would be inappropriate to consider the quantitative effect of the errors on a net basis, i.e., as a CU20 overstatement of expenses, thereby concluding that the identified errors do not need to be corrected. If an error is individually assessed as material to the entity's financial statements, the existence of other errors that affect the entity's financial position, financial performance or cash flows in an opposite way, does not eliminate the need to correct it, or make the error immaterial.

Cumulative Errors

79. An entity may, over a number of reporting periods, accumulate errors that were immaterial, both in individual prior periods and cumulatively over all prior periods. Uncorrected errors that have accumulated over more than one period are sometimes called 'cumulative errors'.

80. Materiality judgments about cumulative errors in prior-period financial statements that an entity made at the time those statements were authorized for issue need not be revisited in subsequent periods unless the entity failed to use, or misused, information that:

   (a) Was available when financial statements for those periods were authorized for issue; and

   (b) Could reasonably be expected to have been obtained and taken into account in the preparation of those financial statements.[36]

81. To assess whether a cumulative error has become material to the current-period financial statements, an entity considers whether, in the current period:

   (a) The entity's circumstances have changed, leading to a different materiality assessment for the current period; or

   (b) Further accumulation of a current-period error onto the cumulative error has occurred.

[36] See paragraph 7 of IPSAS 3.

82. An entity must correct cumulative errors if they have become material to the current-period financial statements.

Example Q—Current-Period Assessment of Cumulative Errors

Background

An entity, three years ago, purchased a school building. The school building has a useful life of 50 years and a residual value amounting to 20 per cent of the school building cost. The entity started to use the school building three years ago, but has not recognized any depreciation for it (cumulative error). In each prior period, the entity assessed the error of not depreciating its school as being individually and cumulatively immaterial to the financial statements for that period. There is no indication that the materiality judgments of prior periods were wrong.

In the current period, the entity started depreciating the school building.

In the same period, the entity experienced a significant reduction in its budgeted expenditure (the type of circumstance referred to in paragraph 81(a) of the [draft] IPSAS Practice Statement).

Application

When making its materiality judgments in the preparation of the current-period financial statements, the entity concluded that the cumulative error was material to the current-period financial statements.

In this scenario, the entity does not need to revisit the materiality assessments it made in prior periods. However, because in the current period the cumulative error has become material to the current-period financial statements, the entity must apply the requirements in IPSAS 3 to correct it.

Information about Covenants

83. An entity assesses the materiality of information about the existence and terms of a loan agreement clause (covenant), or of a covenant breach, to decide whether to provide information related to the covenant in the financial statements. This assessment is made in the same way as for other information, that is, by considering whether that information could reasonably be expected to influence the discharge of accountability by the entity or decisions that its primary users make on the basis of the entity's financial statements (see 'A four-step materiality process', from paragraph 34).

84. In particular, when a covenant exists, an entity considers both:

(a) The consequences of a breach occurring, that is, the impact a covenant breach would have on the entity's financial position, financial performance and cash flows. If those consequences would affect the entity's financial position, financial performance or cash flows in a way that could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions, then the information about the existence of the covenant and its terms is likely to be material. Conversely, if the consequences of a covenant breach would not affect the entity's financial position, financial performance or cash flows in such a way, then disclosures about the covenant might not be needed.

(b) The likelihood of a covenant breach occurring. The more likely it is that a covenant breach would occur, the more likely it is that information about the existence and terms of the covenant would be material.

85. In assessing whether information about a covenant is material, a combination of the considerations in paragraph 84(a)–84(b) applies. Information about a covenant for which the consequences of a breach would affect an entity's financial position, financial performance or cash flows in a way that could reasonably be expected to influence the discharge of accountability by the entity or primary users' decisions, but for which there is only a remote likelihood of the breach occurring, is not material.

Example R—Assessing Whether Information about Covenants is Material

Background

A hospital has taken out a loan to finance its new building and recently suffered some liquidity problems. A long-term loan was granted to the entity in the current reporting period. The loan agreement includes a clause that requires the entity to maintain a debt service coverage ratio below a specified threshold, to be measured at each reporting date (the covenant). According to the loan agreement, the debt service coverage ratio has to be calculated on the basis of debt and revenue figures as presented in the entity's IPSAS Standards financial statements. If the hospital breaches the covenant, the entire loan becomes payable on demand. The disclosure of covenant terms in an entity's financial statements is not required by any local laws or regulations.

Application

Paragraph 38 of IPSAS 30, *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period.

Paragraph 87A of IPSAS 1 requires an entity to disclose, in specified circumstances, information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

In the preparation of its financial statements, the hospital assesses whether information about the existence of the covenant and its terms is material information, considering both the consequences and the likelihood of a breach occurring.

In these circumstances, the hospital concluded that, considering its recent liquidity problem, any acceleration of the long-term loan repayment plan (the consequence of the covenant breach occurring) would affect the hospital's financial position and cash flows in a way that could reasonably be expected to influence primary users' decisions.

The hospital also considered the likelihood of a breach occurring.

Scenario —The lender defined the covenant threshold as net revenue must be at least 1.2x annual debt service obligations

In this scenario, even though the hospital has historically met this threshold, because of its liquidity problems, it assessed the likelihood of a breach occurring as higher than remote. Therefore, information about the existence of the covenant and its terms was assessed as material and disclosed in the hospital's financial statements.

Application date

86. This [draft] IPSAS Practice Statement does not change any requirements in IPSAS Standards or introduce any new requirements. An entity that chooses to apply the guidance in the [draft] IPSAS Practice Statement is permitted to apply it to financial statements prepared from [MONTH DD, YYYY].

Appendix

References to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and IPSAS Standards

Extracts from the Conceptual Framework for Financial Reporting

Paragraph 2.4

Referred to in paragraph 13 of the [draft] IPSAS Practice Statement

Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as “service recipients and resource providers”, unless identified otherwise).

Paragraph 2.6

Referred to in paragraph 13 of the [draft] IPSAS Practice Statement

GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Paragraph 2.8

Referred to in paragraph 17 of the [draft] IPSAS Practice Statement

Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity’s management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity’s service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

Paragraph 2.11

Referred to in paragraphs 18 and 39 of the [draft] IPSAS Practice Statement

For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
  - Meeting its service delivery and other operating and financial objectives;
  - Managing the resources it is responsible for;
  - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
  - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control;
  - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

Paragraph 2.12

Referred to in paragraph 20 of the [draft] IPSAS Practice Statement

The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

Paragraph 2.13

Referred to in paragraph 21 of the [draft] IPSAS Practice Statement

Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

Paragraph 2.31

Referred to in paragraphs 23 of the [draft] IPSAS Practice Statement

GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

Paragraph 3.6

Referred to in paragraph 22 of the [draft] IPSAS Practice Statement

Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

Paragraph 3.17

Referred to in paragraph 58 of the [draft] IPSAS Practice Statement

Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

Paragraph 3.18

Referred to in paragraph 15 of the [draft] IPSAS Practice Statement

Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Paragraph 3.33

Referred to in paragraph 57 of the [draft] IPSAS Practice Statement

Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

Extracts from IPSAS 1, *Presentation of Financial Statements*

Paragraph 7

Referred to in paragraph 5 of the [draft] IPSAS Practice Statement

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's financial statements prepared for that reporting period.

Paragraph 12A

Referred to in paragraphs 5, 30, 43, 59, 62, and 71 of the [draft] IPSAS Practice Statement

Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) Information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) Information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) Dissimilar items, transactions or other events are inappropriately aggregated;

(d) Similar items, transactions or other events are inappropriately disaggregated; and

(e) The understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Paragraph 13

Referred to in paragraph 6 of the [draft] IPSAS Practice Statement

Assessing whether information could reasonably be expected to influence the discharge of accountability by the entity, or decisions made by primary users of a specific reporting entity's general purpose financial statements, requires an entity to consider consideration of the characteristics of those users while also considering the entity's own circumstances.

Paragraph 21

Referred to in paragraph 8 of the [draft] IPSAS Practice Statement

A complete set of financial statements comprises:

(a) A statement of financial position;

(b) A statement of financial performance;

(c) A statement of changes in net assets/equity;

(d) A cash flow statement;

(e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;

(f) Notes, comprising a summary of significant accounting policies and other explanatory notes; and

(g) Comparative information in respect of the preceding period as specified in paragraphs 53 and 53A of IPSAS 1.

Paragraph 27

Referred to in paragraph 64 of the [draft] IPSAS Practice Statement

Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.

Paragraph 29

Referred to in paragraph 10 of the [draft] IPSAS Practice Statement

In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSAS. A fair presentation also requires an entity:

(a) To select and apply accounting policies in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. IPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item.

(b) To present information, including accounting policies, in a manner that provides relevant, faithfully representative, understandable, timely, comparable, and verifiable information.

(c) To provide additional disclosures when compliance with the specific requirements in IPSAS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

Paragraph 45

Referred to in paragraph 45 of the [draft] IPSAS Practice Statement

Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.

Paragraph 53

Referred to in paragraphs 69 and 72 of the [draft] IPSAS Practice Statement

Except when an IPSAS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

Paragraph 53A

Referred to in paragraph 69 of the [draft] IPSAS Practice Statement

An entity shall present, as a minimum, one statement of financial position with comparative information for the preceding period, one statement of financial performance with comparative information for the preceding period, one cash flow statement with comparative information for the preceding period and one statement of changes in net assets/equity with comparative information for the preceding period, and related notes.

Extracts from IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 7

Referred to in paragraphs 74 and 80 of the [draft] IPSAS Practice Statement

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:

(a) Was available when financial statements for those periods were authorized for issue; and

(b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Paragraph 10

Referred to in paragraph 8 of the [draft] IPSAS Practice Statement

IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSAS to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

Paragraph 46

Referred to in paragraph 75 of the [draft] IPSAS Practice Statement

Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with IPSAS if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47–52).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] *IPSAS Practice Statement, Making Materiality Judgments.*

Introduction

BC1. [draft] IPSAS Practice Statement, *Making Materiality Judgments* was drawn primarily from IFRS® Practice Statement 2: *Making Materiality Judgements* (revised 2018) issued by the International Accounting Standards Board (IASB) in September 2017.

BC2. In March 2025, the IPSASB approved the *Making Materiality Judgments* project brief to develop non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS aligned with IFRS Practice Statement 2: *Making Materiality Judgements*.

BC3. The IPSASB's policy document, *Process for Reviewing and Modifying IASB Documents*, sets out the process the IPSASB follows when developing an aligned Standard. The first step in the process is to consider whether there are any public-sector issues that warrant a departure from an IASB document.

BC4. In determining whether public sector issues warrant a departure from an IASB document, the IPSASB considers the following:

(a) Whether applying the requirements of the IASB document would mean that the objectives of public sector financial reporting would not be adequately met;

(b) Whether applying the requirements of the IASB document would mean that the qualitative characteristics of public sector financial reporting would not be adequately met; and

(c) Whether applying the requirements of the IASB document would require undue cost or effort.

BC5. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS Practice Statement and outlines only those areas where [draft] IPSAS Practice Statement departs from the non-mandatory guidance in IFRS Practice Statement 2: *Making Materiality Judgements.*

Background

Reasons for Undertaking the Project on Making Materiality Judgments

BC6. The IPSASB undertook this project to address stakeholders' feedback received on its 2021 Mid-Period Work Program Consultation. The feedback received highlighted that some entities have difficulty making materiality judgments and tend to use disclosure requirements in IPSAS Standards as a checklist rather than applying judgment to determine which information is material and should be included in the general purpose financial statements. Respondents to the 2021 Mid-Period Work Program Consultation indicated strong support for the IPSASB developing guidance aligned with IFRS Practice Statement 2: Making Materiality Judgements.

Form of the Guidance

BC7. Consistent with the approved project brief, [draft] IPSAS Practice Statement includes non-mandatory guidance on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards. The IPSABS agreed that this guidance would not be applicable to Cash Basis IPSAS Accounting Standards. Entities applying IPSAS Standards are not required to comply with guidance in [draft] IPSAS Practice Statement to state compliance with those IPSAS Standards.

BC8. The IPSASB is proposing to issue this non-mandatory guidance in a new type of document because:

(a) Including the guidance as non-authoritative guidance in an IPSAS Standard, such as IPSAS 1, *Presentation of Financial Statements*, where the definition of material information is included, will fail to emphasize the pervasiveness of the concept of materiality throughout IPSAS Standards. This is because an entity makes materiality judgments when deciding on recognition, measurement, presentation, and disclosure across IPSAS Standards.

(b) Issuing the guidance as a new Recommended Practice Guidelines (RPG) would conflict with the role of RPGs in the IPSASB's reporting landscape. These are non-authoritative pronouncements that provide guidance on good practices in preparing general purpose financial reports that are not financial statements.

BC9. [draft] IPSAS Practice Statement proposes guidance in four areas:

(a) General characteristics of materiality;

(b) Interaction with local laws and regulations;

(c) Making materiality judgments (a four-step materiality process); and

(d) Specific topics on prior period information, errors, and information about covenants.

Adaptation Process

BC10. When adapting the non-mandatory guidance IFRS Practice Statement 2: *Making Materiality Judgements* to the public sector context, the Process for Reviewing and Adapting IASB Documents requires the IPSASB to make its decisions within the following framework:

(a) Consistency with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework); and

(b) Internal consistency with IPSAS Standards.

Objective

BC11. Consistent with the project scope, the objective of this [draft] IPSAS Practice Statement is to provide entities with non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Standards.

General Characteristics of Materiality

BC12. The IPSASB replaced:

(a) The definition of material with the definition of material in IPSAS 1, *Presentation of Financial Statements*, as amended by the pronouncement *Definition of Material* (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) issued in May 2025. This definition's principles are reflected across [draft] IPSAS Practice Statement:

Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that primary users make on the basis of the entity's GPFRs prepared for that reporting period.

Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

(b) The description of primary users from 'existing and potential investors, lenders and other creditors' to 'service recipients and their representatives and resource providers and their representatives'.

BC13. The IPSASB adapted the following for consistency with the Conceptual Framework and IPSAS Standards:

(a) Materiality Judgments are Pervasive;

(b) Primary Users and their Information Needs; and

(c) Interaction with Local Laws and Regulations.

BC14. The IPSASB adapted examples to the public sector context, as per paragraph BC10, and is proposing the inclusion of new examples to better reflect the application of materiality by public sector:

(a) An example illustrating materiality judgments on measurement principles in IPSAS Standards, see Example B.

(b) An example illustrating materiality judgments on the classification and presentation of financial statements elements based on qualitative considerations, see Example D.

(c) An example illustrating the identification of an entity's financial statements' primary users, see Example F.

BC15. The IPSASB decided to remove the guidance and example related to an entity's materiality judgments concerning potential primary users' information needs. The guidance states that focusing solely on the information needs of existing primary users, rather than both existing and potential users, would be inappropriate. The IPSASB proposes to delete this because the primary users described in the Conceptual Framework do not include 'potential' primary users.

Interaction with Local Laws and Regulations

BC16. The IPSASB adapted 'Interaction with Local Laws and Regulations' for consistency with the Conceptual Framework and IPSAS Standards. In adapting this section, the IPSASB considered whether to include a section on the interaction between materiality and approved budgets.

BC17. The IPSASB decided that including such a section would be outside the scope of the project and the objective of the [draft] IPSAS Practice Statement because:

(a) An approved budget is not a financial statement. The objective of the [draft] IPSAS Practice Statement; is to provide entities with non-mandatory guidance on making materiality judgments when preparing general purpose financial statements in accordance with IPSAS Standards;

(b) Offering guidance on how materiality interacts with the approved budget is beyond the IPSASB's responsibilities and could conflict with local budgetary requirements; and

(c) This section states that an entity can comply with laws and regulations, provided that, in doing so, material information is not obscured and the financial statements are in compliance with IPSAS Standards. This section does not preclude an entity from considering budgetary law.

Making Materiality Judgments

BC18. This section includes a four-step materiality process that illustrates a possible way entities can make materiality judgments systematically when preparing general purpose financial statements in accordance with IPSAS Standards. The materiality process identifies four sequential steps: identify, assess, organize, and review. The IPSASB adaptations to this section build on those to 'General Characteristics of Materiality' and are consistent with guidance in the Conceptual Framework and IPSAS Standards.

Specific Topics

BC19. IFRS Practice Statement 2: *Making Materiality Judgements* provides additional non-mandatory guidance on making materiality judgments on the following specific topics:

(a) Prior-period information;

(b) Errors;

(c) Information about covenants;

(d) Materiality judgments for interim reporting; and

(e) Information about accounting policies.

BC20. The IPSASB adapted the specific topics for consistency with the Conceptual Framework and IPSAS Standards, except for 'Materiality Judgments for Interim Reporting' and 'Information about Accounting Policies', which were removed. The IPSASB decided to remove these, considering the scope of the project—to develop non-mandatory guidance on making materiality judgments when applying the existing principles of the IPSAS Standards.

BC21. These two sections are based on IASB's guidance, for which there is no equivalent IPSAS Standard or aligned guidance within an IPSAS Standard:

(a) The non-mandatory guidance on 'Materiality Judgments for Interim Reporting' is based on IAS 34 *Interim Financial Reporting* for which there is no equivalent IPSAS Standard. The IPSASB's Process for Reviewing and Adapting IASB Documents notes that references to an IASB document for which there is no equivalent IPSAS Standard should be replaced with 'the relevant international or national accounting standard dealing with the specific topic'. However, because preparing interim financial reports is not a common practice by public sector entities, the IPSASB decided to remove such specific topic.

(b) The non-mandatory guidance on 'Information about Accounting Policies' pertains to principles outlined in the *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) (Consequential Amendments), issued by the IASB in February 2021. The IPSASB has an active project on Presentation of Financial Statements that will consider this IASB pronouncement; as such, time amendments to this [draft] IPSAS Practice Statement are expected to be proposed.

BC22. In adapting the specific topic on 'Information about covenants', the IPSASB considered whether this section should also address materiality judgments on funding conditions, given their prevalence in the public sector. The IPSASB decided not to expand the scope of this specific topic, considering:

(a) The section discusses how the existence of a covenant or similar contractual term could influence materiality judgments. However, funding conditions may or may not be contractual in nature.

(b) The [draft] IPSAS Practice Statement includes example I illustrating the application of materiality on funding conditions.

Alternative View

Alternative View of Mr. Andrew van der Burgh

AV1. In both the private and public sectors, materiality is fundamental to ensuring that the objective of financial reporting is met, namely to provide primary users with the information they need. In developing guidance on making materiality judgments in the public sector, there are key differences from the private sector to be considered, including:

(a) The primary user base is broader and does not consist only of investors, but resource providers (and their representatives) and service recipients (and their representatives);

(b) Users' information needs extend beyond making financing and investment decisions to information that enables users to hold entities accountable for the public resources entrusted to them and for service delivery; and

(c) The highly legislated environment and the emphasis on accountability for how public funds are spent means that qualitative factors may be more prevalent than in the private sector.

AV2. Mr. van der Burgh supports the IPSASB's objective to provide non-mandatory guidance to assist public sector entities in making materiality judgments. Mr van der Burgh also supports the approach to align the guidance with IFRS® Practice Statement 2: *Making Materiality Judgements* (revised 2018) issued by the International Accounting Standards Board (IASB). However, he disagrees that the proposals in Exposure Draft 97 are sufficiently adapted to the public sector context to meet the objective.

AV3. His main reasons for disagreeing with the proposals are that the guidance remains private sector-focused in important respects, without adequate adaptation to the public sector, as follows:

(a) The decision-making and accountability needs of primary users are not adequately incorporated, particularly in relation to the accountability cycle and the central role of the approved budget;

(b) The guidance does not sufficiently address the more nuanced interaction of qualitative and quantitative considerations in the public sector, where qualitative considerations may be decisive more often; and

(c) The guidance does not sufficiently discuss public sector specific IPSAS Standards requirements and how materiality judgments should be applied in that context.

Primary users' accountability needs are not adequately incorporated

AV4. The ED appropriately acknowledges that material information is that which could reasonably be expected to influence the discharge of accountability by the entity, or the decisions of primary users. However, the ED does not adequately discuss how accountability is discharged in the public sector in practice. In particular:

(a) The ED acknowledges the primary user base is broader in the public sector and discusses the information primary users may need (paragraphs 19 to 22). However, this is discussed in isolation in the ED. Mr. van der Burgh considers that these differences should be addressed throughout the sections and examples in the ED;

(b) The approved budget is commonly the starting point of the accountability cycle and a key mechanism by which users assess whether resources were obtained and used as authorized. IPSAS 24, Presentation of Budget Information in Financial Statements addresses the presentation of a comparison of budget and actual information in financial statements and is therefore central to users' assessments. Mr. van der Burgh considers that the ED should more explicitly discuss how the budget, and reporting actual information against the budget, impacts the discharge of accountability by an entity and decisions made by primary users. He also considers that the ED should discuss how materiality judgments are made in the context of budget information presented in financial statements. This discussion could, for example, include illustrative considerations for identifying potentially material budget variances, assessing materiality of explanations of variances, and avoiding obscuring material budget-related information through immaterial disclosures; and

(c) While the ED includes public sector examples, the examples should frame user needs explicitly in the context of accountability and not only decision-making.

The interaction of qualitative and quantitative considerations requires further development for the public sector

AV5. Mr. van der Burgh agrees that materiality depends on both the nature and the magnitude of information. Nevertheless, in the public sector, qualitative considerations may be decisive more often because of the breadth of primary users, the key role of accountability, and the effects of legislation, regulation, and other authority. Matters such as compliance with legislation and the consequences of transactions and events may influence users' assessments even where the amounts involved are small. Mr. van der Burgh considers that the ED should provide additional guidance explaining how public sector entities might identify and apply qualitative factors, including circumstances in which qualitative considerations effectively reduce quantitative thresholds to very low levels. Illustrative examples could incorporate materiality judgments where qualitative considerations are determinative, such as the public interest associated with an item.

The ED should discuss public sector specific IPSAS Standards requirements and how to apply materiality in their context

AV6. Mr. van der Burgh considers that the ED would better achieve its objective if it gave greater prominence to making materiality judgments in relation to public sector- specific IPSAS Standards requirements. For example:

(a) The discussion of loan covenants is less prevalent for many public sector entities. Public sector entities more commonly face other constraints and obligations that may be equally or more relevant to primary users' assessments, for example, funding commitments, conditions attached to grants and transfers, restrictions on the use of appropriations, and similar arrangements;

(b) See paragraph AV4. on guidance that should be provided on making materiality judgments in relation to budget information in the financial statements;

(c) Non-exchange transactions are prevalent in the public sector and there is unique guidance in IPSAS to account for them. Public sector specific guidance on making materiality judgments in the context of these transactions is needed; and

(d) Public sector specific guidance on making materiality judgments in the context of these transactions, including illustrative examples, is needed.

Conclusion

AV9. For the reasons explained in this Alternative View, Mr. van der Burgh considers that further amendments are necessary to ensure the ED is appropriately tailored to the public sector and provides sufficient guidance to support application across jurisdictions, particularly those adopting IPSAS Standards for the first time.

Published by: IFAC International Federation of Accountants®

International Public Sector Accounting Standards Board®

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