

### [DRAFT] PROJECT BRIEF, *MAKING MATERIALITY JUDGEMENTS*

#### 1. Introduction

- 1.1. *Making Materiality Judgments* (the 'Project') was one of the minor projects proposed for addition to the IPSASB's Work Program in the [2021 Mid-period Work Program Consultation](#). In May 2022, the IPSASB agreed to add it as a pre-commitment project to the IPSASB's Work Program to be undertaken once plenary time and resources became available<sup>1</sup>.
- 1.2. The IPSASB proposed adding this project because feedback received highlighted that some entities have difficulties making materiality judgments and tend to use disclosure requirements in IPSAS as a checklist instead of applying judgement on what information is material and should be included in the general purpose financial statements (GPFS). This difficulty and practice contribute to what many describe as a disclosure problem, where entities provide too much irrelevant information and not enough relevant information in their financial statements.
- 1.3. The IPSASB discussed how the International Accounting Standard Boards (IASB) had developed IFRS® Practice Statement 2 *Making Materiality Judgements* (issued in 2017<sup>2</sup>) to assist entities in making materiality judgments when preparing GPFS. Additionally, the IPSASB noted such material could be adapted to the public sector context, using its established process for developing accounting guidance for the public sector<sup>3</sup>.
- 1.4. The objective of IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement 2) is to provide reporting entities with non-authoritative guidance on making materiality judgements when preparing GPFS in accordance with IFRS Standards.
- 1.5. Respondents to the [2021 Mid-Period Work Program Consultation](#) indicated strong support for the IPSASB developing aligned guidance with Practice Statement 2 to clarify the principles a public sector entity should consider when making materiality judgements in preparing GPFS in accordance with IPSAS.

#### 2. Project Rationale

- 2.1. The IPSASB added the Project to the IPSASB's Work Program after consultation with constituents, who strongly supported the development of guidance on making materiality judgements when preparing GPFS in accordance with IPSAS aligned with Practice Statement 2. This Project supports the IPSASB's strategic objective, see paragraph 4.3.
- 2.2. The Project satisfies the four criteria for project prioritization identified in [Appendix B of the IPSASB's 2024-2028 Strategy and Work Program](#):
  - a) **Prevalence:** whether the issue is widespread globally among public sector entities. The strong support received for adding this project to the IPSASB's Work Program shows the

<sup>1</sup> See [Mid-Period Work Program Consultation Summary.pdf](#)

<sup>2</sup> Since its issuance, Practice Statement 2 has been amended by:

- a) IFRS 18 *Presentation and Disclosure in Financial Statements* issued in April 2024,
- b) *Disclosure of Accounting Policies* (Amendments to IAS 1) issued in February 2021, and
- c) minor consequential amendments by *Amendments to References to the Conceptual Framework in IFRS Standards* (issued March 2018) and *Definition of Material* (Amendments to IAS 1 and IAS 8) issued October 2018.

<sup>3</sup> See paragraph 3(b) in [Process for Reviewing and Adapting IASB Documents](#).

prevalence of some entities' difficulty in making materiality judgments when preparing GPFS in accordance with IPSAS.

- b) **Consequences:** whether the issue impairs the ability of the financial reports to provide useful information for accountability and decision making. The lack of guidance on making materiality judgements contributes to a disclosure problem, which in turn impairs the ability of the financial reports to provide useful information for accountability and decision making purposes.
- c) **Urgency:** whether the emerging issue has recently gained prominence and therefore requires consideration in the near term. Materiality is a pervasive concept throughout IPSAS. Hence, there is an urgency for the IPSASB to issue guidance to address the lack of guidance on making materiality judgments when preparing GPFS.
- d) **Feasibility:** whether a technically sound solution to the issue can be developed within a reasonable time period and with current resource constraints without adversely impacting the completion of other projects. Adapting Practice Statement 2 to the public context will allow the IPSASB to address the lack of guidance on making materiality judgements when preparing GPFS and the disclosure problem efficiently and in a timely manner.

### 3. Financial Reporting Requirements

- 3.1. Materiality is a pervasive concept in preparing GPFS because an entity should make materiality judgements when making decisions about recognition, measurement, presentation, and disclosure in IPSAS.
- 3.2. According to IPSAS 3, paragraph 10, "IPSAS set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable 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."
- 3.3. The Project will adapt Practice Statement 2 guidance to the public sector context to address the need for public sector guidance on making materiality judgements when preparing GPFS. This approach is expected to address the lack of guidance on making materiality judgements when preparing GPFS and the disclosure problems referred to in paragraph 1.2.

### 4. Project Objective

#### Project Objective

- 4.1. The project's objective is to develop guidance to clarify how to make materiality judgements when preparing GPFS in accordance with IPSAS to ensure that GPFS provide relevant information to users for accountability and decision-making purposes.

#### Links to the IPSASB's Strategic Objective

- 4.2. The [IPSASB's 2024-2028 Strategy and Work Program](#) has the overarching strategic objective: "Strengthening Public Financial Management (PFM) and sustainable development globally through increasing adoption and implementation of accrual IPSAS and international public sector sustainability reporting standards." This is delivered through two main activities, both of which have a public interest focus:

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## 4.3.1

- **Delivering Global Standards.** Developing and maintaining IPSAS and public sector financial and sustainability reporting standards; and
  - **Inspiring Adoption and Implementation.** Raising awareness of the IPSASB Standards and the benefits of their adoption and implementation.”
- 4.3. The Project is consistent with the Delivering Global Standards main activity in the IPSASB's Strategic Objective in terms of:
- a) **Addressing Constituents Needs.** The project satisfies the four criteria for project prioritization, see paragraph 2.2(a)-(d). Thus, the undertaking of this project addresses constituents' needs. This is because the project will:
    - i. Address the emerging issue of lack of guidance on making materiality judgements when preparing GPFS and the identified disclosure problem;
    - ii. Improve the application of financial reporting standards through the development of guidance on making materiality judgements when preparing financial statements; and
    - iii. Use the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* ('Conceptual Framework') as basis for developing public sector relevant guidance on making materiality judgements.
  - b) **Collaborating Internationally.** The project will adapt the IASB's Practice Statement 2 to the public sector context. This is consistent with how the IPSASB collaborates internationally by maintaining alignment with IFRS Accounting Standards where appropriate.
  - c) **Clarifying Principles.** Guidance on making materiality judgements will clarify the principles the entity should consider when deciding which information to include in its financial statements. This will support the application of IPSAS.

### Achieving the Project Objective

- 4.4. To achieve the project objective, an Exposure Draft on *Making Materiality Judgements* aligned with Practice Statement 2 and adapted to fit the public sector context will be necessary.
- 4.5. The IPSASB document [Process for Reviewing and Adapting IASB Documents](#) will be followed during this project.
- 4.6. To achieve the project objective, the IPSASB will:
  - a) Consider the issues with reference to *the Conceptual Framework*;
  - b) Consider the links to other projects and existing IPSAS, such as the project on *Presentation of Financial Statements*, IPSAS 1, *Presentation of Financial Statements*, and IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and
  - c) Determine any public-sector specific issues that should be addressed in the Project, given its scope.

## 5. Outline of the Project

### Project Scope

- 5.1. The scope of the project is to develop guidance on making materiality judgements when preparing GPFS in accordance with IPSAS.

### Key Issues

5.2. This project will consider the key issues listed below:

*Key issue—Aligning the Definition of Material across the IPSASB's literature*

- 5.3. Practice Statement 2 provides non-authoritative guidance on making materiality judgements when preparing financial statements. Practice Statement 2 includes the definition of material provided in the IASB's *Conceptual Framework for Financial Reporting* ('IASB *Conceptual Framework*') and notes that IFRS 18 *Presentation and Disclosures in Financial Statements* provides a similar<sup>4</sup> definition.
- 5.4. However, the definition of material is different between IPSAS 1, *Presentation of Financial Statements*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* ('IPSASB's *Conceptual Framework*'). This is because IPSAS 1 predates the completion of the updated Chapter 3, *Qualitative Characteristics* of the *Conceptual Framework* (issued in 2024), and the IPSASB has yet to consider amending IPSAS 1 to reflect those updates. Additionally, there is a remaining difference between IPSAS and IFRS. The definition of material in IPSAS refers to 'users' while IFRS refers to 'primary users'.
- 5.5. Developing guidance on making materiality judgements requires aligning the definition of material across the IPSASB's literature. Therefore, this project should consider how best to resolve the inconsistencies in the definition of material in order to achieve alignment within the IPSASB's financial reporting literature and to provide a firm basis for developing guidance on making materiality judgements in accordance with IPSAS.
- 5.6. A further aspect of this key issue will be how to align the definition of material across the IPSASB's literature.

*Key issue—Status of Guidance and Type of Document*

- 5.7. The IPSASB will need to decide the authority of the guidance and the type of document through which it should be published. The IASB issued guidance on making materiality judgements as a Practice Statement, a standalone document providing non-authoritative guidance. If the IPSASB takes a similar approach to the IASB, it will need to decide what type of non-authoritative material would be most appropriate.
- 5.8. The IPSASB develops and issues:
  - a) IPSAS as the authoritative standards to be applied in the preparation of general-purpose financial reports (GPFR) of public sector entities.
  - b) International Public Sector Accounting Standards Sustainability Reporting Standards™ (IPSASB SRS™).
  - c) Other non-authoritative material such as the following:
    - i. The *Conceptual Framework* establishes the concepts that are to be applied in developing IPSAS.
    - ii. Recommended Practice Guidelines applicable to the preparation and presentation of GPFR to provide guidance that represents good practice that public sector entities are encouraged to follow.

<sup>4</sup> Similar to as opposed to consistent as the definition of material in IAS 1 refers to 'financial statements' instead of 'financial reports' to remain consistent with the scope of that standard.

- iii. Other papers and research reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments.

5.9. Additionally, IPSAS are issued with non-authoritative material, such as a Basis for Conclusions, Implementation Guidance, and Illustrative Examples, which accompany an IPSAS but are not part of that IPSAS.

## 6. Describe the Implications for any Specific Persons or Groups

### Relationship with IASB

6.1. The project has no known links with any current IASB project. The content in Practice Statement 2 has references to the following IASB documents, and the way in which such references operate may have implications for the project if this is different from the equivalent IPSAS:

- a) The IASB *Conceptual Framework*;
- b) IAS 8 *Basis of Preparation of Financial Statements*<sup>5</sup>;
- c) IAS 16 *Property, Plant and Equipment*;
- d) IAS 24 *Related Party Disclosures*;
- e) IAS 34 *Interim Financial Reporting*<sup>6</sup>;
- f) IAS 36 *Impairment of Assets*;
- g) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;
- h) IFRS 3 *Business Combinations*;
- i) IFRS 7 *Financial Instruments: Disclosures*;
- j) IFRS 9 *Financial Instruments*; and
- k) IFRS 15 *Revenue from Contracts with Customers*; and
- l) IFRS 18 *Presentation and Disclosure in Financial Statements*.

### Relationship to Other Standards, Projects in Process or Planned Projects

6.2. There are expected links to IPSASB's existing and recently completed financial reporting projects:

- a) [Presentation of Financial Statements project](#) (existing project); and
- b) Updated *Conceptual Framework* (completed project).

### Government Finance Statistics (GFS)

6.3. The IPSASB supports reducing unnecessary differences between IPSAS and GFS when developing new IPSAS and revising existing IPSAS. The IPSASB's policy paper [Process for Considering GFS Reporting Guidelines during the Development of IPSAS](#) guides this process.

<sup>5</sup> IFRS 18 changed the title of IAS 8 from *Accounting Policies, Changes in Accounting Estimates and Errors* to *Basis of Preparation of Financial Statements*.

<sup>6</sup> There is no equivalent IPSAS for IAS 34.

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## 4.3.1

- 6.4. *Government Finance Statistics Manual 2014* does not have guidance on materiality that can be considered during the development of this project. Therefore, IPSASB's policy paper, in paragraph 6.3, will not be applied to this project.

## 7. Development Process, Project Timetable and Project Output

### Development Process

- 7.1. The project will be completed in two distinct stages of development:
- Stage 1** involves developing an Exposure Draft based on Practice Statement 2, following the process outlined in the IPSASB's [Process for Reviewing and Adapting IASB Documents](#).
  - Stage 2** involves developing a Final Pronouncement based on constituents' feedback to the ED.
- 7.2. The development of any output will be subject to the IPSASB's formal due process, with input from the Consultative Advisory Group. The approval of the ED and final pronouncement will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path and that the Project Timetable remains appropriate.

### Project Timetable

- 7.3. The indicative timeline for the Project is as follows:

Expected Completion		Major Project Milestone
2024	December	Discussion of Project Brief
2025	March	Approval of Project Brief
2025	June	Discuss Issues
2025	September	Discuss Issues and Review ED
2025	December	Approval of Exposure Draft
2026	January	Issue ED
2026	April	End of ED comment period (Four months)
2026	June	Review Comments
2026	September	Approval of Final Guidance
2026	October	Publication

### Project output

- 7.4. The initial output is an exposure draft with a recommendation that this gives rise to a final pronouncement.

## 8. Resources Required

### Task Force

- 8.1. As this is planned to be purely an alignment project, a task force is not anticipated to be required.

**Staff**

8.2. It is anticipated that the project will involve one FTE.

**Factors that might add to the complexity and length**

8.3. Factors that may add complexity and length to the Project include:

- a) Materiality is a pervasive concept in financial reporting; therefore, it will be critical to maintain the proposed project scope throughout its duration and ensure there is no unnecessary expansion of scope or amendments proposed to IPSAS;
- b) Extent and complexity of the key issues to be addressed; and
- c) Additional key issues not yet addressed in the Project Brief that may arise during the development of the ED and review of the feedback received from constituents on the ED may impact the Project Timetable.

**9. Useful Sources of Information**

- 9.1. Practice Statement 2, the *Conceptual Framework*, IPSAS 1, and IPSAS 3 will be the principal information sources.
- 9.2. The Project will also draw from public sector standard-setters that have developed aligned Practice Statement 2 to the public sector context, such as:
  - a) The Australian Accounting Standards Board Practice Statement 2 Making Materiality Judgements; and
  - b) Accounting Standards Board (South Africa) Guideline on the Application of Materiality to Financial Statements.