

[DRAFT] PROJECT BRIEF, *MAKING MATERIALITY JUDGEMENTS*

Section 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 available¹.
- 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 2017²) 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 sector³.
- 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:
 - (a) Since the pre-commitment of the *Making Materiality Judgement* project, the scope of the IPSASB's work has expanded to include both financial and sustainability reporting, and the IPSASB acting as one board for the development of financial and sustainability reporting should develop guidance when making materiality judgments when preparing both GPFS and GPFR. (See the IPSASB's Strategic Objective in paragraph 4.2.); and
 - (b) Acknowledged that similarly to financial reporting, an entity that prepares climate-related disclosures needs to make materiality judgments; as such, it is reasonable to pre-empt that this project should develop guidance when making materiality judgments for financial and sustainability reporting.
- 1.6 The IPSASB decided this project would be undertaken in three distinct phases, each with its unique scope, see paragraph 5.1.

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

² 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.

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

Section 2 Project Rationale

Phases 1 and 2

- 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 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 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 challenges faced by some entities in making the appropriate materiality judgements contribute 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 need for additional 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 need for additional guidance on making materiality judgements when preparing GPFS and the disclosure problem efficiently and promptly.

Phase 3

- 2.3 The development of guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS is expected to be consistent with the project rationale outlined for Phases 1 and 2 above. This phase will commence after the completion of the Climate-related Disclosure pronouncement.

Section 3 Reporting Requirements

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 need for additional guidance on making materiality judgements when preparing GPFS and the disclosure problems referred to in paragraph 1.2.

Sustainability Reporting Requirements

- 3.4 The sustainability reporting requirements will be determined after the completion of the Climate-related Disclosure pronouncement. This is because the sustainability reporting requirements in IPSASB SRS ED 1 are proposals. The IPSASB is targeting a final pronouncement to be approved at the December 2025 IPSASB meeting.

Section 4 Project Objective

Project Objective

- 4.1 The project's objective is to amend authoritative guidance to achieve a consistent/aligned definition of material across the IPSASB's financial reporting guidance, develop non-authoritative guidance to clarify how to make materiality judgements when preparing GPFR in accordance with IPSAS and IPSASB SRS to ensure that GPFR 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:
- **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.”

Phases 1 and 2

- 4.3 The objectives for Phase 1 and 2 are consistent with the main activity in the IPSASB's Strategic Objective, Delivering Global Standards—Public Sector Financial Reporting Standards 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 the need for additional guidance on making materiality judgements when preparing GPFS, the identified disclosure problem, and eliminate inconsistencies within the IPSASB guidance;

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- (ii) Improve the application of financial reporting standards through the development of guidance on making materiality judgements, aligned with Practice Statement 2, 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.

Phase 3

- 4.4 The development of guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS is expected to be consistent with the main activity in the IPSASB's Strategic Objective, Delivering Global Standards—Public Sector Sustainability Reporting Standards. This phase will commence after the completion of the Climate-related Disclosure pronouncement.

Achieving the Project Objective

Phases 1 and 2

- 4.5 To achieve the project objective:
- (a) **Phase 1.** An Exposure Draft to achieve consistency across the IPSASB's literature on the definition of material will be necessary.
 - (b) **Phase 2.** An Exposure Draft on *Making Materiality Judgements* aligned with Practice Statement 2 and adapted to fit the public sector context will be necessary.
- 4.6 The IPSASB document [Process for Reviewing and Adapting IASB Documents](#) will be followed during this project.
- 4.7 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.

Phase 3

- 4.8 The objective of Phase 3's will be determined after the completion of the Climate-related Disclosure pronouncement.

Section 5 Outline of the Project

Project Scope

5.1 The scope of the project is to:

- (a) **Phase 1—Review consistency of the definition of ‘material’** across the IPSASB financial reporting guidance and propose changes to achieve this;
- (b) **Phase 2—Materiality in Financial Reporting:** Development of non-authoritative guidance aligned with IFRS® Practice Statement 2 Making Materiality Judgments (narrow scope project); and
- (c) **Phase 3—Materiality in Sustainability Reporting:** Develop guidance on making materiality judgments when preparing sustainability reporting in accordance with IPSASB SRS.

Key Issues

5.2 This project will consider the key issues listed below:

Phase 1 Key issue—Aligning the Definition of Material across the IPSASB’s literature

5.3 A key issue will be aligning the definition of material across the IPSASB’s literature:

- (a) The definition of material differs between IPSAS 1, *Presentation of Financial Statements*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (*‘Conceptual Framework’*).
- (b) Additionally, there is a remaining difference between the *Conceptual Framework* and IFRS. The definition of material in the *Conceptual Framework* refers to ‘users’ while IFRS refers to ‘primary users’.

5.4 This is because IPSAS 1 predates the completion of the updated Chapter 3, *Qualitative Characteristics of the Conceptual Framework* (issued in 2024). The IPSASB has yet to consider amending IPSAS 1 to reflect updates to the *Conceptual Framework* and IASB *Definition of Material* (Amendments to IAS 1 and IAS 8) issued in October 2018.

5.5 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 similar⁴ definition.

5.6 Developing non-authoritative guidance on making materiality judgements in phase 2 of this project requires aligning the definition of material across the IPSASB’s literature. A consistent/aligned definition of material will provide a firm basis for developing guidance on making materiality judgements in accordance with IPSAS.

⁴ 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.

Phase 2

Key issue—Type of Document

- 5.7 The IPSASB will need to decide the type of document through which non-authoritative guidance on making materiality judgments for GPFS should be published. The IASB issued guidance on making materiality judgments 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 non-authoritative materials such as:
- (a) Basis for Conclusions, Implementation Guidance, and Illustrative Examples, which accompany an IPSAS but are not part of that IPSAS.
 - (b) The *Conceptual Framework* establishes the concepts to be applied in developing IPSAS.
 - (c) 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.
 - (d) Other papers and research to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments.

Key Issue—Adaptation of Examples to the Public Sector Context

- 5.9 Similar to other alignment projects, the IPSASB will need to determine whether additional commentary or examples are necessary to illustrate specific requirements in the public sector.
- 5.10 The IPSASB's policy paper, [Process for Reviewing and Adapting IASB Documents](#), will guide the development of non-authoritative guidance aligned with Practice Statement 2.

Phase 3 Key issues

- 5.11 The key issue(s) of Phase 3 will be determined after the completion of the Climate-related Disclosure pronouncement.

Section 6 Describe the Implications for any Specific Persons or Groups

Relationship with IASB

- 6.1 Phase 1 and 2 of the project have no known links with current IASB projects.
- 6.2 The content in Practice Statement 2 has references to the following IASB documents, and how 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* ⁵;
 - (c) IAS 16 *Property, Plant and Equipment*;
 - (d) IAS 24 *Related Party Disclosures*;

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

- (e) IAS 34 *Interim Financial Reporting*⁶;
 - (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*.
- 6.3 Potential links between Phase 3 and IASB projects will be determined after the completion of the Climate-related Disclosure pronouncement.

Relationship to Other Standards, Projects in Process or Planned Projects

- 6.4 Phase 1 and 2 have 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).
- 6.5 Phase 3 has expected links to [IPSASB SRSTTM Exposure Draft \(ED\) 1, Climate-related Disclosures](#), an existing IPSASB sustainability reporting project.

Government Finance Statistics (GFS)

- 6.6 The IPSASB supports reducing unnecessary differences between IPSAS/IPSASB SRS and GFS when developing new IPSAS/IPSASB SRS and revising existing IPSAS. The IPSASB's policy paper [Process for Considering GFS Reporting Guidelines during the Development of IPSAS](#) guides this process.
- 6.7 *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 6.6, will not be applied to this project.

Section 7 Development Process, Project Timetable and Project Output

Development Process

Phase 1

- 7.1 Phase 1 will be completed in two distinct stages of development:
- (a) **Stage 1** involves developing an Exposure Draft proposing the amendments to the definition of material to ensure consistency across IPSASB's literature.
 - (b) **Stage 2** involves developing a Final Pronouncement based on constituents' feedback to the ED and finalizing consequential amendments to other IPSAS.

⁶ There is no equivalent IPSAS for IAS 34.

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- 7.2 The development of any output will be subject to the IPSASB's formal due process. 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.

Phase 2

- 7.3 Phase 2 will be completed in two distinct stages of development:
- (a) **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](#).
 - (b) **Stage 2** involves developing a Final Pronouncement based on constituents' feedback to the ED.
- 7.4 The development of any output will be subject to the IPSASB's formal due process. 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.

Phase 3

- 7.5 The development process of Phase 3 will be determined after the completion of the Climate-related Disclosure pronouncement.

Project Timetable

7.6 The indicative timeline for Phase 1 and 2 of the Project are in the table below. The indicative timeline of Phase 3 will be determined after the completion of the Climate-related Disclosure pronouncement.

Expected Completion		Major Project Milestone	
		Phase 1	Phase 2
2024	December	Discussion of Project Brief	
2025	March	Approval of Project Brief	
		<ul style="list-style-type: none"> Discuss Issues Approval of Exposure Draft (ED) 	-
2025	April	Publish Exposure Draft	-
2025	July	End of ED comment period (60 days)	<ul style="list-style-type: none"> Discuss Issues Review ED
2025	September	Review Comments & Approval of Final Guidance	Approval of Exposure Draft (ED)
2025	October	Publish Final Pronouncement	Publish Exposure Draft
2026	January	-	End of ED comment period (120 days)
2026	March	-	<ul style="list-style-type: none"> Review Comments Approval of Final Guidance
2026	April	-	Publish Final Pronouncement

Project output

7.7 The outputs of Phase 1 and 2 are exposure drafts, leading to final pronouncements based on feedback received from stakeholders. The output of Phase 3 will be determined after the completion of the Climate-related Disclosure pronouncement.

Section 8 Resources Required

Task Force

8.1 This project will be undertaken in phases:

- Phase 1.** The need for a task force is not anticipated, given the short project timeline and recent completion of the update of the *Conceptual Framework*.
- Phase 2.** The need for a task force is not anticipated. This phase's output will be purely an alignment with private sector guidance.
- Phase 3.** When this phase is initiated, whether a task force is needed will be determined.

Staff

8.2 It is anticipated that the project will involve 0.6 FTE.

Factors that might add to the complexity and length

Phases 1 and 2

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

- (a) Broadening the scope beyond that indicated in the project brief;
- (b) External expectations for this project, which leads to the need for more robust communication with constituents; and
- (c) Additional key issues not yet addressed in the Project Brief that may arise during the ED development of Phase 1 and 2 and review of the feedback received from constituents on either phase may impact the Project Timetable.

Phase 3

8.4 The factor that may add complexity to Phase 3 will be determined after the completion of the Climate-related Disclosure pronouncement.

Section 9 Useful Sources of Information

Phase 1

9.1 The principal information sources will be the *Conceptual Framework* and IASB *Definition of Material* (Amendments to IAS 1 and IAS 8).

Phase 2

9.2 The principal information sources will be the Practice Statement 2, the *Conceptual Framework*, IPSAS 1, and IPSAS 3.

9.3 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.

Phase 3

9.4 Appropriate sources of information will be determined when this phase is initiated. One source of information that may be considered relevant is educational material published by IFRS Foundation, *Sustainability-related risks and opportunities and the disclosure of material information*.