



IPSASB

International Public
Sector Accounting
Standards Board®

AGENDA ITEM 7

MAKING MATERIALITY JUDGEMENTS

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MAKING MATERIALITY JUDGEMENTS

1. Overview of Practice Statement 2 and NSS Adaptations
2. Structure of PS2 and Adaptations
3. Definition of Materiality and Comparison to IPSASB and NSS
4. PS 2 Four-Step Process
5. PS 2 Type of Examples
6. PS 2 Illustrative Example and its adaptation
7. Next Steps

Overview of Practice Statement 2 and Adaptations

- **What is IFRS® Practice Statement 2 *Making Materiality Judgements* (PS 2)?**
 - It is a stand-alone document that provides non-mandatory guidance on making materiality judgements when preparing financial statements in accordance with IFRS.
 - Entities are not required to comply with PS 2 to state compliance with IFRS Standards.
- **Why did IASB issue this guidance?**
 - To address the disclosure problem—companies provide too much irrelevant information and not enough relevant information in their financial statements.
 - Rather than using judgment to decide what information to provide in financial statements, some entities use disclosure requirements in IFRS Standards as if they were items on a checklist.
- **The following National Standard Setters (NSS) have adapted PS 2:**
 - AASB (Australia), ASB (South Africa), and SB FRS (Singapore).

Structure of Practice Statement 2 and NSS* document

1. Objective and Scope
2. General characteristics of materiality
 - Definition
 - Pervasiveness
 - Judgements
 - Primary users and their information needs
 - Impact of publicly available information
3. Interaction with local laws and regulations
4. Making materiality judgements
 - Overview of materiality process
 - A four-step process
5. Guidance on 'specific topics'
 - Prior period information
 - Errors
 - Information about covenants
 - Materiality judgments for interim reporting
 - Information about accounting policies
6. Illustrative examples

* AASB (Australia), and SB FRS (Singapore).

PS2 Def. of Material and Comparison (IPSASB and NSS)

Definition of Material (PS 2)

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

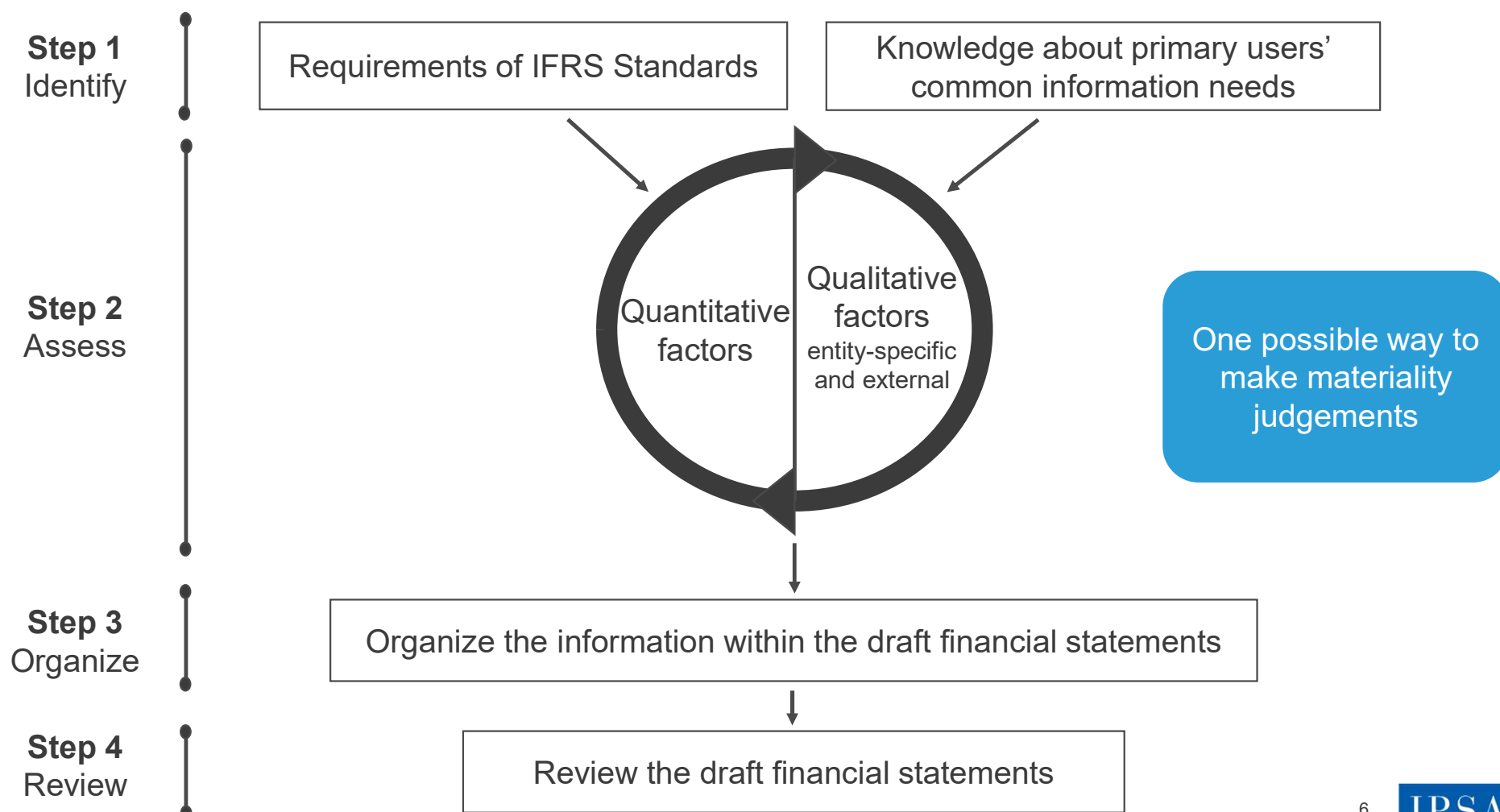
Commonalities:

- Focus on the impact on users' decisions
- Targets primary users
- Includes qualitative and quantitative aspects
- Emphasize that materiality is entity-specific

Differences:

- The definition of primary users differs by the entity targeted:
 - **Public sector.** Service recipients and their representatives, and resource providers and their representatives. (IPSASB & ASB)
 - **For profit.** Existing and potential investors, lenders, and other creditors. (IASB, AASB, & SB FRS)
- 'Discharge of accountability' is added as a criterion for public sector entities. (IPSASB & ASB)

The Materiality Process – Four Step Process



PS 2 Type of Examples

- Each topic covered in PS 2 includes an example on making materiality judgements. These examples apply to one or more topics and can be grouped as follow:
 - Recognition and measurement 1
 - Presentation and disclosure 2
 - Disclosure 9
 - Other 13
 - Primary Users 2
 - Publicly available information 1
 - Interaction with local laws 3
 - Prior period errors 2
 - Information about covenants 1
 - Interim reporting 2
 - Accounting policies 2
- NSS adapted examples:
 - Singapore, South Africa and Australia for the public sector context.
 - Australia also for not-for-profit sector or for-profit entities not applying the Conceptual Framework.

Example – Recognition (IASB PS 2)

Step 1 Identify

Background - An entity has a policy of capitalizing expenditures on items of property, plant and equipment (PP&E) in excess of a specified threshold and recognizing any smaller amounts as an expense.

Step 1 Identify

IFRS Requirements - IAS 16 *Property, Plant and Equipment* requires that the cost of an item of PP&E is recognized as an asset when the criteria in paragraph 7 of IAS 16 are met.

Step 2 Assess

Application - 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 IAS 16**. Such a policy is nevertheless reassessed each reporting period to ensure that its effect on the entity's financial statements remains immaterial.

Example – Recognition (Adapted Public Sector)

Step 1 Identify

Background - A public sector entity has a policy of capitalizing expenditures on items of property, plant and equipment (PP&E) in excess of a specified threshold and recognizing any smaller amounts as an expense.

Step 1 Identify

IPSAS Requirements – IPSAS 45 Property, Plant and Equipment requires that the cost of an item of PP&E is recognized as an asset when the criteria in paragraph 6 of IPSAS 45 are met.

Step 2 Assess

Application - The entity public sector **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.

Next Steps – Making Materiality Judgments Project

- Phase 1
 - Comments on ED 93 are sought by July 14th, 2025
 - IPSASB's review of responses to ED 93, September 2025 IPSASB Meeting
- Phase 2
 - Application of the [IPSASB's Process for Reviewing and Adapting IASB Documents](#)
 - Phase 2 Key Issues
 - Type of document
 - Adaptation of examples to the public sector context
 - To be discussed in H2 2025

