

IPSAS Exposure Draft (ED) 93, Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework)

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Submission via website

The Association of Chartered Certified Accountants (ACCA) welcomes the opportunity to comment on IPSASB's Exposure Draft (ED 93), *Definition of Material*. Providing material information lies at the heart of financial reporting, and it is vital that the public sector's specific circumstances are addressed when considering this issue. Consequently, ACCA is supportive of IPSASB's wider *Making Materiality Judgments* project and looks forward to engaging in Phases 2 and 3.

It is important that where definitions of materiality currently do not align this is attended to and ACCA therefore welcomes the intention of the proposals in IPSAS ED 93. Our detailed comments on the proposed changes and additions outlined in ED 93 are set out in Appendix A (with more information about ACCA contained in Appendix B).

Defining the users of financial reports and statements is central to materiality considerations. As such, taking IAS 1 as a starting point and adapting it to recognise the broader range of users which exist for public sector information is a sensible approach. Similarly, ACCA welcomes the inclusion of 'discharge of accountability' within the materiality definition. It is essential that general purpose financial reports and statements can be used by stakeholders for accountability purposes.

The importance of providing a wide range of information to a broad audience of users must be balanced against the disadvantages of providing excessive information, which can overwhelm users and lead to information being obscured. ACCA is therefore supportive of the inclusion within IPSAS 1 of 'obscuring information' as a materiality factor. Understandability, as well as transparency, is a key aspect of financial reporting.

The underlying principles outlined in the paragraphs above inform ACCA's detailed response below. While most of the changes ACCA propose are minor in nature, they are intended to improve clarity further still. ACCA looks forward to the finalised changes from this ED, as well as continuing to engage with the *Making Materiality Judgments* project in further phases. We are happy to discuss or provide further information about our comments.

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THINK AHEAD

Appendix A

Amendments to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

The proposed changes are helpful clarification that the terms ‘primary users’ and ‘users’ refer to those who rely on general purpose financial reports (GPFRs) for their financial information needs. However, there is a case for making the language even more explicit within the main text of the Conceptual Framework to state that *both* terms, ‘primary users’ and ‘users’, refer to the *same* group.

In this context, the principle conveyed by the footnote for paragraph 2.4 should be included in paragraph 2.4 itself, so its importance is not overlooked. IPSASB should consider incorporating the statements in the Basis for Conclusions in the main part of the Framework. ACCA believes the statements in paragraph BC3.32 that ‘*the users referred to in the description of materiality are the primary users*’ and BC46 that ‘*these terms [i.e. primary users and users] are intended to be interpreted in the same way*’ both provide greater precision than the current paragraph 2.4 and its proposed footnote.

As is well understood, the users of public sector GPFRs are drawn from a broad base and therefore have a wide range of information needs. Consequently, public sector entities will need to continue to seek a balance between disclosing information that meets users’ needs while maintaining a manageable level of information being disclosed. ACCA therefore look forward to the next phase of the project, given the importance of providing guidance to support preparers in making materiality judgements.

Amendments to IPSAS 1, Presentation of Financial Statements

ACCA supports the definition of materiality proposed and welcomes its inclusion within the definitions in paragraph 7 of IPSAS 1, given its fundamental importance. The inclusion of the phrase ‘*could reasonably be expected to influence*’ is also helpful and aligns with the language on materiality in the Conceptual Framework.

The addition of ‘*discharge of accountability by the entity*’ as a consideration for materiality is also supported, as it should help the entity focus on presenting information that is relevant to its operation and mandate. ACCA believes such information is also likely to support primary users’ needs. Paragraph 2.8 of the Conceptual Framework exemplifies this obligation in terms of requiring ‘*the provision of information about...the entity’s service delivery achievements... and its capacity to continue to provide services*’. When disclosing this information, it should be linked to the financial information as far as possible, to ensure accessibility and coherence within the financial statements. This point could be emphasised more strongly within the text of the Standard.

Given the importance of accessibility, ACCA also agrees with the additions relating to obscuring information in paragraph 12A, recognising the potential circumstances where a negative impact is obscured, rather than providing a fair representation of the actual event or

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transaction. The examples provided are helpful for preparers in considering both the approach to presenting information, as well as the extent of information to be reported. Similarly, they should also support discussions between preparers and auditors.

The additional wording proposed in paragraph 13 should assist preparers in considering the level of information to disclose; the revised paragraph improves the focus and clarity. ACCA acknowledges the reality expressed in the final sentence of paragraph 13A that information in the financial statements can sometimes be complex and recognises this is consistent with the wording in IAS 1.

However, it is crucial that disclosures should be presented and communicated in a clear and easily understandable format, recognising the broad audience for public sector information. ACCA believes, for public sector financial statements, the circumstances in which *‘even well-informed and diligent users may need to seek the aid of an adviser to understand information’* should be kept to an absolute minimum.

Amendments to IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors

ACCA supports the proposed changes to IPSAS 3 and has commented above on the substantive changes proposed.

Amendments to Other IPSAS Standards

ACCA supports the proposed changes to other IPSAS Standards and has commented above on the substantive changes proposed. As a minor point, for IPSAS 19, it is not clear why the title of IPSAS 1 has been deleted in paragraph AG18, when the titles of other standards are retained throughout.

Appendix B

About ACCA

ACCA (the Association of Chartered Certified Accountants) is a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over 252,500 members and 526,000 future members in 180 countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all. Find out more at: www.accaglobal.com