

July 3, 2025

Mr. Ian Carruthers, Chairman
International Public Sector Accounting Standards Advisory Board
70 York Street, Suite 710
Toronto, ON M5J 1S9, Canada

Dear Chairman Carruthers and Members of the Board –

Thank you for the opportunity to comment on *Exposure Draft 93, Definition of Material*. I hope my enclosed responses will be helpful.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Ricky A. Perry, Jr.', with a large, stylized flourish extending from the end of the signature.

Ricky A. Perry, Jr., CPA, CGFM
United States of America

Enclosure

Disclaimer: The enclosed comments provided in this letter are strictly my own views. They are not intended to reflect or convey the views of the FASAB or others on staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Overall comments

I have a number of concerns about these proposed amendments.

The stated aim of the materiality project is to “address the difficulties in making materiality judgements.” Phase one of the appears to focus on aligning definitions rather than proposing significant changes to them or addressing matters related unrelated to materiality, such as modifying conceptual framework discussion of users. Materiality and users are separate and distinct concepts with a nuanced relationship. The proposed amendments, however, introduce significant changes, and the user-related amendments seem to go well beyond the intended scope.

The conceptual framework discussions on materiality and users of GPFRs are a linchpin to the entire framework. Significant changes would affect how the framework is applied or analyzed by the Board; professional practice, costs, and accounting and auditing policies for a variety of constituencies; and the degree of harmonization with public sector auditor responsibilities and user needs.

My concerns are reflected throughout the detailed comments on each specific amendment proposed, as presented below.

Part 1: Proposed amendment to paragraph 2.4 (added footnote) of the conceptual framework

2.4 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 the 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 (hereinafter referred to as “service recipients and resource providers”, unless identified otherwise).¹

¹ Throughout the Conceptual Framework, the terms ‘primary users’ and ‘users’ refer to those service recipients and their representatives and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need.

I disagree with the proposed footnote.

A matter of considerable importance is the meaning of the term ‘users’ and whether its meaning should be equated to the term ‘primary users.’ This proposal effectively narrows the definition of the term ‘users’ when viewed alongside extant paragraph 2.6. The term ‘users’ appears throughout the conceptual framework in places where a broader term seems appropriate.

I encourage the Board to consider re-writing paragraphs 2.3-2.6—especially 2.6. Paragraph 2.6 *attempts to* (emphasis added) reflect an intent that GPFRs address general-purpose informational needs rather than the specific needs that would require special-purpose reporting, and I agree with this presumed intention. The problem is that these intentions are not cogently explained on the page. Instead, paragraph 2.6 falsely implies that special-purpose and general-purpose user groups are mutually exclusive groups. The next-to-last sentence explicitly states that users that can require special-purpose reporting “are not primary users of GPFRs.” For this reason, I disagree with the Board’s assertion in its basis for conclusions (par. BC 3.32K) that this proposed footnote avoids the need to make other changes.

Consider opportunities to craft a clearer discussion of the nuances at play here, including the variety of users of GPFRs, the limitations of GPFRs for specialized needs best met through special-purpose reporting, direct and indirect users (both which can be primary users, in my opinion), and the purposes and uses of special-purpose and general-purpose financial reports. I encourage the Board to avoid

use of any language that precludes certain user groups from being considered primary users based on authorities or other sources of information they may have at their disposal, as this can vary. The intended users of any given GPFR is a matter best determined by management and independent auditors as part of their respective professional responsibilities.

In summary, this area requires further study and a reassessment of the project objectives and scope. In the near term, I recommend leaving paragraph 2.4 as it is, without this proposed footnote. Consider broadening the scope of this project and clarifying the conceptual framework discussion of users—especially paragraph 2.6.

Proposed amendment to paragraph 3.32 of the conceptual framework

*3.32. 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.*

I disagree. I am concerned that the proposed amendment unduly restricts the overarching concept of materiality as something that exclusively concerns 'primary users'—*especially* in the public sector environment. Public sector entities are held to a high standard of accountability by many groups and a broader user base, including those that are not considered 'primary users' under chapter 2, paragraph 2.6, in its current form (see related comments above, and further explained below).

The objective of general-purpose financial reporting by public sector entities is to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes, according to paragraph 2.1 of the conceptual framework. Without question, public sector GPFRs provide information relied upon by parties that are currently precluded from being 'primary users' under paragraph 2.6. Herein lies the problem. Under paragraph 2.6, key users are precluded from being considered 'primary users' if they have the authority to require tailored financial reports to meet their specific needs. To reiterate, these parties are expressly described as "other parties [that] may find the information provided by GPFRs useful, [but] they are not the primary users of GPFRs."

This proposed amendment, therefore, shines a light on the subtle but significant flaws of paragraph 2.6. Many of the users listed in paragraph 2.6 are highly relevant to materiality judgments because they rely on audited information provided in GPFRs for assessing accountability, making evaluations and decisions, and providing or allocating financial resources. Central agencies, for example, rely upon audited public sector GPFRs to consolidate whole-of-government GPFRs. They may also have the authority to require special-purpose or tailored reporting during interim periods, for responding to legislative requests, and/or providing evidence to support whole-of-government audited amounts and footnotes. Many special-purpose report end users feel comfort on the completeness and accuracy of their tailored reports as a direct result of the audited financial and mixed systems and controls that produce the information included in both the audited general purpose financial reports and the often-unaudited special purpose reports. For this reason, I disagree with the Board's assertion in its basis for conclusions (par. BC 3.32J) that this amendment is consistent with paragraphs 2.4 and 2.6.

Also consider that users are defined more broadly under the public sector auditing standards. ISSAI 200, *Financial Audit Principles*, paragraph 23, provides that "the 'intended user' of financial statements in the public sector is primarily the legislature, which represents citizens (the ultimate users) ... Other intended users may include ministries in the case of financial statements of public sector entities working on their behalf."

Concepts on materiality and users should be carefully developed in the context of the public sector environment and in harmony with other interacting elements of the conceptual framework and the ISSAIs. Particular attention should be given to harmonizing with the audits of public sector GPFRs and

the public sector auditing standards regarding materiality and ‘intended users.’ As I noted above, the Board should consider broadening the scope of this project and re-examining its conceptual framework discussion of users—especially paragraph 2.6.

Part 2: Proposed amendments to IPSAS 1, paragraph 7

Insofar as it relates to use of the term ‘primary users’ within this proposed amendment, I disagree for reasons set forth in my comments above. Unlike the conceptual framework amendments, however, this amendment proposal would amend an IPSAS. On day one of implementation this would introduce a consequential divergence in public sector accounting and auditing standards. While accounting and auditing standards need not align on all matters, a significant divergence in the wrong direction on the topics of users and materiality is another matter entirely. Harmonization is a necessity.

While the remainder of the proposed amendments would not fundamentally alter the concept of materiality or how it would be interpreted, they seemingly relate the concept more broadly to items of information without relating the *nature and magnitude (or degree)* of the omission, misstatement, or obscurity to the overall concept. The previous version explained these intricacies. For that reason, I prefer the previous version.

Proposed addition of paragraph 12A

I partially agree.

As with paragraph 7, I worry that the absence of discussion regarding *the degree of* misstatement, omission, or obscurity might inadvertently blur some of the intricacies of the concept of materiality.

While I appreciate and agree with including discussion regarding the concept of obscurity, I wonder if the proposal is clear enough. Rather than defining the concept of obscurity, the proposal analogizes its effects as being similar to omissions and misstatements, followed by examples. While I agree with this information, it does not resemble a definition.

Consider directly defining the concept. Consider the below illustrative definition as a starting point. It leverages elements of the examples in the proposed sub-paragraphs 12A(a)-(e).

Illustrative definition of obscurity

Information is obscured if its presentation or disclosure is unduly vague, unclear, fragmented, (dis)aggregated, classified, or (de)emphasized.

Proposed amendments to paragraph 13 and the proposed addition of paragraph 13A

I appreciate the discussion regarding well-informed and diligent users. This discussion could be helpful in guiding the Board in reaching balanced and cost-beneficial presentation and disclosure decisions based on relevant constraints of GPFRs. As such, this raises another question: Does such a discussion belong in IPSAS 1, in the conceptual framework, or both? Consider including it in the conceptual framework. As I noted above, there are opportunities to more broadly re-examine the discussion of users in the conceptual framework.

Parts 3 and 4 (and related amendment proposals)

Insofar as it relates to the insertion of the term ‘primary users’ within these proposed amendments, I disagree for reasons set forth in my comments above. I have no additional comments on parts 3-4.