

10 August 2026

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Ross,

IPSASB Exposure Draft – *Making Materiality Judgments*

Thank you for the opportunity to comment on Exposure Draft 97 *Making Materiality Judgments* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

Support for the objectives of the guidance

We support the IPSASB's objective of developing non-authoritative guidance tailored for the public sector to support preparers in making materiality judgements when preparing general purpose financial statements (GPFS).

We acknowledge the considerable work undertaken to adapt International Financial Reporting Standards (IFRS) Practice Statement 2 *Making Materiality Judgements* to the public sector. We also recognise the importance of high-quality public sector materiality guidance for preparers, auditors, and oversight bodies. The project's aim to address the challenge whereby entities provide too much irrelevant information or not enough relevant information is critical for the ongoing improvement of public sector reporting and meeting primary user needs.

New Zealand's public sector preparers of financial statements have a long history of applying materiality judgements in a complex reporting environment. Our experience indicates that challenges remain in translating conceptual principles into practical and consistent judgements, particularly given the broad and diverse user groups of public sector financial statements.

We are therefore supportive of the proposed guidance and its objectives. The ED provides a useful overview of materiality in the public sector and highlights important conceptual principles. However, the public sector adaptations in the proposed guidance often remain high-level, with limited articulation of how those concepts are applied in a GPFS context.

Improving application focus

In practice, preparers often need to take an intermediary step between understanding principles-based materiality guidance and applying it to individual recognition, measurement, presentation and disclosure requirements. This may involve developing entity-specific materiality frameworks,

methodologies, or policies that identify relevant quantitative benchmarks, qualitative factors, user accountability considerations, and the interaction between those factors. We consider that the proposed guidance would be strengthened by providing more application focused content to assist preparers in moving from understanding the concept of materiality to applying and refining their judgement in practice.

Given the purpose of the adaptation process, there is a strong case for enhancing the practical application of the guidance. This would support the project's aim of helping public sector entities avoid situations whereby their financial statements include too much irrelevant information or do not include enough relevant information, and improving consistency in materiality judgements.

Interactions with IPSASB's Presentation of Financial Statements project

Further practical clarity, embedded in a public sector context, will also be important in supporting the IPSASB's *Presentation of Financial Statements* project, as the effective application of materiality will be critical to judgements about the aggregation and disaggregation of information within the primary statements and the notes. In the for-profit sector, we are observing that the enhanced requirements on the grouping of information in IFRS 18 *Presentation and Disclosure in Financial Statements* are providing an opportunity for entities to reconsider what information is material to primary users and to 'refresh' their approach to presentation and disclosure accordingly.

The IPSASB's *Presentation of Financial Statements* project could provide the same opportunity for public sector entities. Strengthening the practical applicability of the guidance on making materiality judgements, particularly in relation to public sector specific qualitative factors, will therefore be important to support consistent implementation of the potential new standard resulting from the *Presentation of Financial Statements* project.

Recommendations

We recommend the final guidance would be strengthened by becoming more application-focused by:

- Providing further practical guidance to help preparers navigate the broad definition of material and the breadth of primary user groups, including:
 - acknowledgement that IPSAS requirements establish a 'baseline' level of information for broad primary user groups (such as citizens and taxpayers), allowing preparers to focus on identifying additional information that may be required, or where specific items of information in IPSAS may not be material;
 - articulation of how the entity's discharge of accountability is reflected within GPFS, and how primary users assess the entity's discharge of accountability based on GPFS, including the types of information or changes that may influence those assessments; and
 - greater emphasis on the mapping of primary users' accountability needs and decision-making needs to the information provided in GPFS, including clearer explanation of how financial statements support (and are limited in supporting) these needs.
- Placing greater emphasis on how materiality judgements are applied in practice within the four-step materiality process, including:

- in step 1, more explicit consideration of primary users and their information needs including strategies around how to gather this information, and clearer guidance on identifying potentially material information beyond specific IPSAS requirements;
- in step 2, more emphasis is required in explaining how the qualitative and quantitative materiality factors are applied in practice, particularly in assessing when accountability and decision-making are influenced by these factors, and in context of the boundaries and objectives of GPFS;
- Providing an additional holistic public sector example that demonstrates the reasoning behind a materiality decision in a public sector context, showing how multiple qualitative factors specific to the public sector are considered together in practice, rather than as discrete aspects of materiality.

We consider that making further adaptations is appropriate given the IPSASB's adaptation of IFRS guidance as a starting point, and the significant differences in context and experience between public sector and for-profit reporting – particularly the difference between primary users in the public sector as compared to the for-profit sector.

Alternative view

In respect of the alternative view, our recommendations generally align. We support a measured approach to strengthening public sector adaptation, including incorporating primary users' accountability needs throughout the guidance, clearer articulation of the interaction between qualitative and quantitative factors, and targeted examples that address public sector-specific materiality challenges.

Responses to the questions proposed in the ED

Our responses to SMC 1 and 2 are outlined in Appendix A.

Definition of materiality in context of GPFR and GPFS

Finally, we acknowledge the broader conceptual tension between the definition of materiality in the IPSASB's Conceptual Framework, which refers to decisions made by primary users on the basis of general purpose financial reports (GPFR), and the definition of materiality in IPSAS 1 *Presentation of Financial Reports*, as reflected in the proposed guidance, which refers to the decisions made by primary users on the basis of GPFS.

We acknowledge that this guidance appropriately focuses on GPFS, and the reference to the definition of materiality per IPSAS 1 (rather than per the Conceptual Framework) to avoid confusion in relation to the two different definitions of materiality. However, we note the following:

- In practice, assessments of accountability and decision-making in the public sector are often informed by information in GPFR (e.g. service performance information) and a wider set of other accountability documents, rather than GPFS alone.
- In addition, as recommended in our comment letter on IPSASB ED 93 *Definition of Material*, we consider it is important to clearly articulate the difference between the definition of material in the Conceptual Framework and in IPSAS 1, and the reasons and implications of the difference.

We understand this matter is outside the scope of this project but consider that it would benefit from further consideration as part of the IPSASB's future work on the reporting architecture, particularly in clarifying the role of GPFS within the wider GPFR framework and the implications for applying materiality in practice.

If you have any queries or require clarification of any matters in this letter, please contact accounting@xrb.govt.nz.

A handwritten signature in black ink, appearing to read 'Carolyn Cordery', with a stylized flourish at the end.

Yours sincerely,

Dr Carolyn Cordery
Chair, New Zealand Accounting Standards Board

Appendix A

Specific Matter for Comment 1

The IPSASB decided to issue developing non-mandatory guidance in making materiality judgments when preparing financial statements aligned with Practice Statement 2 (see paragraphs BC10–BC22).

Do you agree with how the IPSASB adapted Practice Statement 2 guidance for the public sector context? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

The ED includes an Alternative View that the non-mandatory guidance in [draft] IPSAS Practice Statement, Making Materiality Judgments, could benefit from further public-sector adaptation.

1. Overall, we agree with the IPSASB's decision to adapt IFRS Practice Statement 2 for the public sector and to issue the guidance as a Practice Statement. We consider the four-step materiality process (identify, assess, organise, review) to be an appropriate structure for supporting consistent judgement, subject to our recommended enhancements noted below under the heading 'four-step model'.
2. We strongly recommend enhancing the proposed guidance to improve its practical applicability in the public sector context – so that the guidance can more effectively achieve its objective of helping public sector preparers apply materiality judgements in the context of its users.
3. We acknowledge that materiality is inherently entity-specific and that it is not appropriate for the guidance to prescribe definitive outcomes of materiality judgements. Our comments are more directed at providing additional matters for evaluation to improve how the guidance supports preparers in applying materiality judgement in practice.
4. Overall, while the ED appropriately reflects IPSASB's Conceptual Framework principles relating to the public sector context, the guidance would benefit from further articulation of how those principles are applied in making judgements for GPFS. In particular:
 - Public sector specific sections of the guidance remain largely conceptual and would benefit from further practical application focus;
 - There is limited practical guidance on how to approach assessing the information needs of very broad and diverse public sector primary user groups, and how to appropriately focus information; and
 - The discharge of accountability, and primary user decision-making assessments, are not clearly articulated in practical terms. It is also not clear how these assessments, which often require broader information than what is contained in GPFS are influenced by information within GPFS. This lack of clarity makes it more difficult for preparers to assess when information in GPFS could reasonably be expected to influence those assessments.

Primary users (Paragraphs 13–15)

5. In the public sector, the breadth of primary users creates a fundamental challenge – determining materiality in light of multiple different user needs. Primary user groups such as citizens and taxpayers may effectively include the entire population of a jurisdiction, with differing levels of engagement, sensitivity and accountability expectations. Primary users are described conceptually, but there is no acknowledgement of this key challenge, and what it might mean practically when making materiality judgements.

6. The section on primary users in the guidance would benefit from further application-focused context to support preparers in identifying and considering primary users, understanding their common information needs, and linking those needs to information presented in GPFS.
7. This could be supported by:
 - clarifying how broad user groups (such as citizens and taxpayers) should be considered in a GPFS context. For example, by acknowledging that IPSAS requirements provide a baseline level of information that addresses common accountability and decision-making needs across these broad user groups.
 - illustrating in more detail the different types of user groups in practice, and the different types of decisions these primary users make based on GPFS;
 - further consideration of the extent to which “potential users” are included and how an entity considers their needs in particular – noting that the ED refers to considering the information needs of ‘potential service recipients and resource providers’ in addition to existing ones; and
 - providing insight into the features of those different types of primary users (e.g. general interest, sensitivity to particular information, level of scrutiny, expected engagement with the financial statements and diversity) and how these may influence the types of decisions made based on GPFS.

Accountability and decision-making (Paragraphs 16–22)

8. While accountability is described conceptually in the proposed guidance (e.g. management of resources entrusted to the entity, compliance with laws, regulations and authorities governing service delivery, effectiveness and efficiency), the guidance does not clearly articulate how the discharge of accountability is assessed in practice through information presented in GPFS. As a result, it is not always clear how information in GPFS is reasonably expected to influence the discharge of accountability, particularly where user groups are broad and diverse and many assessments are informed by information beyond GPFS.
9. Similarly, the guidance does not clearly articulate what accountability-related decisions primary users make based on an entity’s GPFS, and what type of information in GPFS may be needed for making these decisions.
10. While the guidance appropriately reflects the accountability and decision-making concepts set out in the conceptual framework, it would benefit from further application focused discussion of how those concepts are reflected in, and informed by, information presented in GPFS. Such guidance would help preparers assess whether information could reasonably be expected to influence accountability and decision-making assessments and support the development of consistent approaches to applying materiality judgements in practice.
11. To help public sector entities consider primary users’ information needs when making materiality judgements in practice, the guidance could be strengthened as follows:
 - To help preparers understand accountability in the context of materiality judgements:
 - more explicitly linking the discharge of accountability to information presented in GPFS, including more practical information, such as:
 - how users assess stewardship through changes in financial performance, financial position and cash flows; or

- how users might apply an accountability lens to the type of spending incurred during the year;
 - providing further insight into the types of information or changes that may influence assessments of the discharge of accountability, such as deviations from expectations (e.g. budgets or trends); and the underlying transactions, events or conditions driving those changes;
 - To help preparers understand and apply both the accountability and decision-making aspects of materiality in practice:
 - mapping the assessments (e.g. assessments of service delivery, sustainability, capacity, performance, liquidity, solvency) that different types of service recipients and resource providers make, as mentioned in paragraphs 19–21 of the guidance, to the information in GPFS that would likely serve as inputs into these assessments, and also to the relevant accountability and decision-making needs of these types of primary users; and
 - acknowledging that GPFS provide an important, but partial, input to accountability and decision-making, and that preparers may need to consider the wider reporting and accountability context when applying materiality judgements within GPFS, and when considering the types of decisions primary users make based on GPFS.
12. The following examples illustrate how mapping the assessments that primary users make to the relevant information in GPFS and their accountability and decision-making needs would be beneficial:
- Paragraph 20 says that service recipients require inputs to assess whether the entity is using resources economically, efficiently, effectively, and as intended, and whether such use is in their interest. It would be useful to link this to the information in GPFS that would be relevant as inputs to this assessment (e.g. information about the entity’s revenue and expenses in the current period compared to prior period and with the budgeted information for the current year). It would also be useful to link this assessment to service recipients’ accountability needs, in relation to stewardship of resources and service delivery.
 - Paragraph 21 says that lenders require inputs to assess the entity’s liquidity, to determine whether the entity will repay the loan on time. It would be useful to link this to the information in GPFS that would be relevant as inputs to this assessment (e.g. current assets and liabilities in the statement of financial position, maturity analyses in the notes). It would also be useful to mention that this assessment would inform the lender’s decision on whether to lend more money to the entity, or call back the loan, etc.
13. Explanations such as these would help in demonstrating the link between the assessments that different groups of primary users make as per paragraphs 19-21 and the GPFS themselves, which could help in applying materiality in practice. These explanations would also strongly link the abovementioned assessments with the core materiality concepts of accountability to, and decision-making of, primary users, helping bring these concepts ‘to life’ in practical terms.

Common information needs (Paragraphs 23–25)

14. This section could assist in practically addressing the fundamental challenge of how preparers should address the breadth and diversity of primary users in practice. This is a key aspect of

developing a consistent approach to assessing what information may reasonably be expected to influence primary users' accountability and decision-making assessments.

15. While the ED appropriately emphasises that common information needs of primary users should be considered without prioritising individual users, preparers must still make decisions about information that may be of more interest to a particular primary user group. However, there is limited guidance on how this may be achieved in a public sector context when considering these broad user groups.
16. This could be supported by:
 - Reinforcing the role of IPSAS requirements as a baseline (that existing requirements generally provide a foundation for meeting the common information needs of broad user groups), although in some cases entities may need to provide more information, and in other cases certain items specified in IPSAS may not need to be separately presented or disclosed if they are not considered material for a specific entity's primary users;
 - Clarifying how differences in the level of interest, engagement or sensitivity across user groups of common information needs may be considered in applying judgement. While also acknowledging that this doesn't necessarily constitute a prioritisation of users but is a way of focusing on information that is impactful.
17. Example G could also be refined, as it can be read in a manner that implies a preparer might prioritise providing certain information to a user group based on their importance to the entity (specifically in terms of funding in this example). The rationale would be more consistent if it solely focused on the nature of the information request itself, and that it is not a common information need across the donor/resource provider user group, rather than outlining the relative significance of that specific user to the entity.

Four-step model (Paragraphs 35 – 67)

18. We support the introduction of a structured materiality process via the four-step model and consider it an appropriate framework for supporting consistent judgement. Consistent with the observations above regarding primary users, accountability, and common information needs, both step 1 and step 2 would benefit from additional application-focused guidance to help preparers translate these concepts into consistent approaches to applying materiality judgements in practice. In particular:
 - Step 1 could more clearly illustrate how preparers identify information that has the potential to be material in practice; and
 - Step 2 could clarify how qualitative factors are assessed, particularly in respect of influencing the discharge of accountability.

Step 1 – Identify information that has the potential to be material

19. While paragraphs 37–40 describe the sources of information to be considered, the guidance remains high level and would benefit from further explanation of how preparers identify and evaluate information that has the potential to be material in practice, including:
 - how preparers may identify additional information beyond that which is specifically required in IPSAS that is necessary for enabling primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows (per paragraph 40); and

- what indicators may help focus attention on information that has the potential to be material.
20. Consistent with our observations under the ‘primary users’ and ‘accountability and decision making’ above, this highlights the importance of a clear linkage (or mapping) between primary users and their decisions and the specific information provided in GPFS that may influence those decisions.
21. This could be supported by:
- reinforcing a process of linking primary users, their decisions, and the information required from GPFS as a starting point;
 - providing illustrative indicators to help identify potentially material information, such as:
 - significant changes in financial performance, financial position or cash flows;
 - variances against budgets or prior periods;
 - underlying drivers of those changes; and
 - areas of heightened public interest or sensitivity.

Step 2 – Assess whether information is material

22. Step 2 introduces a well-developed set of materiality factors and provides a helpful foundation for applying judgement in practice. In our view, this section is generally well articulated but would benefit from further clarity on how qualitative factors are assessed in practice, particularly where multiple qualitative and quantitative factors interact, and how these assessments are linked to primary users’ accountability and decision-making needs.
23. In particular, the guidance could be further strengthened by:
- Providing additional clarity on how qualitative and quantitative factors may influence the discharge of accountability through GPFS. This could include more explicit explanation of how the nature, extent, and context of a factor and its impact on information within GPFS might affect the discharge of accountability (for instance, how does links to a policy or service delivery objective per paragraph 50(a) of the guidance tie to influencing the discharge of accountability). This might also include reference to how changes in financial performance, financial position, and departures from expectations can influence the entity’s discharge of accountability. Such explanation would also assist preparers in identifying measures of broad interest across user groups when undertaking quantitative assessments and support more consistent application of materiality judgements;
 - Offering further context on how preparers may consider the relative significance of qualitative factors where multiple interacting factors are present, which is often the case in the public sector. Qualitative factors often coexist alongside quantitative considerations and broader contextual information. The guidance would be enhanced if it acknowledged how they can be assessed together. For example, contingent liabilities and contingent assets may provide a useful public sector scenario for illustrating how to consider the relative significance of qualitative and quantitative factors. Materiality judgements about contingent liabilities often involve significant uncertainty about the occurrence of the event and the related outflow. Preparers may need to consider the nature of the matter, the level of uncertainty, potential public interest, accountability

implications, and whether disclosure would influence primary users' assessments of the entity's discharge of accountability. An example of this nature could help demonstrate how qualitative and quantitative considerations are weighed together in practice (see response to SMC 2);

- Acknowledging that when determining the impact of qualitative factors, and the resulting reporting outcome, preparers must also consider the objectives and boundaries of GPFS. For instance, the guidance could explain how preparers assess whether a qualitative factor (such as heightened scrutiny or public interest) justifies changes to presentation, disaggregation, or disclosure within GPFS, having regard to the role of GPFS in supporting accountability and decision-making, as distinct from the broader reporting environment. This would assist preparers in determining when the presence of a qualitative factor should influence GPFS reporting outcomes, and why; and
- Clarifying how presence of qualitative factors may translate into financial statement reporting outcomes (e.g. disclosure or disaggregation).

Specific Matter for Comment 2
Do you find the examples on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards helpful? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those examples would be helpful to entities.

24. Overall, the examples are generally structured to illustrate specific principles or discrete aspects of materiality and are useful in that respect. However, they do not demonstrate how preparers holistically work through a reasoning process to make materiality judgements. This is particularly important in the public sector context where interacting qualitative and quantitative factors are common, and where high scrutiny and broad user groups are the norm.
25. This is illustrated in some examples (Examples D, K, and Q) that are intended to reflect specific principles, but the link between the factors identified and the materiality conclusion reached is not always clear, and therefore does not support how holistic materiality judgements are made:
 - In Example D, while it is demonstrated that heightened parliamentary and public scrutiny may result in presenting an expense separately in the statement of financial performance, it is not clear why, in this case, the expenditure is sufficiently material to warrant that outcome. In particular, there is limited explanation of how this qualitative factor is expected to influence primary users' accountability assessments or decision-making in practice. The example also does not sufficiently consider how such a factor should be assessed alongside other relevant considerations, including the objectives and boundaries of GPFS and the broader information environment in which public sector entities operate.

In the public sector, many areas of expenditure are subject to some level of public interest or scrutiny. Public scrutiny alone is not sufficient to support a materiality conclusion without further explanation of how it influences primary users' assessments in the context of GPFS, taking into account the objectives and boundaries of GPFS. Without further explanation, there is a risk that the example could be applied more broadly, implying that public scrutiny alone justifies disaggregation or additional disclosure in GPFS. Further articulation of how these factors are weighed together, and why this results in a particular reporting outcome within GPFS, would strengthen the example and better support preparers in applying the guidance in practice.

 - In Example K, it is not fully clear why the related party nature of what appears to be a routine maintenance contract would be expected to influence primary users' assessments, or how this factor is sufficient to change what would otherwise appear to be a quantitatively immaterial transaction into a material one.
 - In Example Q, it is not fully clear how the cumulative quantitative effects of the error are assessed relative to the reduction in budgeted expenditure as a qualitative factor, or how these considerations together are weighed in reaching the materiality conclusion.
26. To address these limitations, we recommend the guidance be strengthened to include an additional holistic public sector example that demonstrates how materiality judgements are made where several competing or interacting factors are present. This could include, for example, a contingent liability or other uncertain matter where the amount is not readily determinable, or is quantitatively small, but where qualitative considerations such as public interest, legal or regulatory significance, accountability implications, or heightened scrutiny

may be relevant in assessing materiality. This type of example could demonstrate how preparers:

- identify relevant information and assess it in the context of primary users and their information needs;
- evaluate quantitative and qualitative factors especially where they might compete; and
- bring together these considerations to reach a materiality conclusion.

27. Presenting such an example in a way that clearly illustrates how multiple public sector factors are considered together would further support preparers in applying the guidance in practice.