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Submission via website: https://www.ipsasb.org/publications/exposure-draft-ed-97-ipsas-practice-statement-making-materiality-judgments

Dear Thomas,

Exposure Draft 97, IPSAS Practice Statement, Making Materiality Judgments

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide feedback to the International Public Sector Accounting Standards Board (IPSASB) on the above Exposure Draft 97 IPSAS Practice Statement *Making Materiality Judgments* ("the ED"). We make this submission on behalf of our members and in the public interest.

In developing our responses, we have consulted with members and other stakeholders working in the New Zealand public sector, since these types of entities are required to adopt IPSAS Standards in New Zealand. We have also heard from Australian public sector stakeholders who are familiar with applying AASB Practice Statement 2 Making Materiality Judgements which is based on IFRS® Practice Statement 2: *Making Materiality Judgements* issued by the International Accounting Standards Board (IASB).

Key points

Overall, we support the objective of the ED to provide non-mandatory guidance on making materiality judgements when preparing general purpose financial statements (GPFS). Materiality judgements are integral to the preparation of financial statements and underpin the appropriate and consistent application of the accounting requirements in both the private and public sector.

We believe that additional guidance and examples, specifically tailored to public sector circumstances will help improve consistency of application in practice, especially for jurisdictions at an earlier stage of IPSAS adoption. We are also of the view that the examples included in the ED provide a positive starting point for applying the first two steps in the four-step materiality process (identify, assess, organise and review).

While we are aware of calls for materiality guidance that has a stronger focus on translating conceptual principles into holistic practical application, there are practical limits to the variety of circumstances guidance can effectively address. Nevertheless, some additional examples that demonstrate how preparers bring together multiple qualitative and quantitative considerations and apply judgement holistically when making materiality assessments would be helpful.

Form of the guidance

This ED introduces a new form of guidance into IPSASB literature: a Practice Statement. It will therefore be important for the IPSASB to clearly articulate the purpose, status and applicability of the Practice Statement and distinguish it from the various other forms of guidance supporting its standards, such as Implementation Guidance, Illustrative Examples and Basis for Conclusions) and non-authoritative Recommended Practice Guides (RPGs). This need for clarity of purpose further underscores the importance of the IPSASB's planned research into the architecture of its existing suite of literature to determine where guidance is best situated, as highlighted in the IPSASB 2025 Work Program Consultation.

Primary users and the scope of reporting

We also encourage the IPSASB to further consider, as part of its planned research into the architecture of its existing suite of literature, the difference in the scope of reporting between the definitions of materiality contained in the IPSASB Conceptual Framework and that in IPSAS 1 *Presentation of Financial Statements*. The Conceptual Framework refers to decisions made by primary users based on general purpose financial reports (GPFR), while IPSAS 1, as reflected in the ED, refers to decisions made by primary users based on GPFS. Given that public sector accountability and decision-making are often informed by information contained in GPFR, such as service performance information, as well as other accountability documents, this distinction may warrant further consideration.

Our responses to the specific matters for comment are included in Appendix A to this letter. Appendix B provides more information about CA ANZ. If you have any questions about our submission, please contact Amir Ghandar at Amir.Ghandar@charteredaccountantsanz.com.

Yours sincerely,

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Appendix A

Reponses to Specific Matters for Comment

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.

We support the IPSASB's objective to provide non-mandatory guidance to assist public sector entities in making materiality judgments. We also support the approach to align the guidance with IFRS® Practice Statement 2: *Making Materiality Judgements* (revised 2018) issued by the IASB. We do not consider that the Alternative View requires a fundamentally different approach, but we do agree that selected additional public-sector examples would improve the guidance.

We believe that the ED will help preparers across the public sector apply materiality more consistently, particularly in jurisdictions that are at an earlier stage of IPSAS adoption. However, materiality judgements are inherently nuanced, complex and highly dependent on an entity's specific circumstances. As a result, there are limits to the extent that guidance can improve consistency in practice. We agree that some of the additional guidance and examples suggested in the Alternative View could be helpful. In particular, this would include addressing circumstances in which qualitative considerations effectively reduce quantitative thresholds to very low levels, as referred to in paragraph AV5.

This ED introduces a new form of guidance into IPSASB literature: a Practice Statement. In addition to IPSAS Standards, the IPSASB currently issues a range of supporting materials, including non-authoritative guidance accompanying IPSAS Standards (such as Implementation Guidance, Illustrative Examples and Basis for Conclusions), non-authoritative Recommended Practice Guides (RPGs), and authoritative Application Guidance. Given the growing range of guidance available, it is important for the IPSASB to clearly articulate the purpose, status and applicability of the Practice Statement and distinguish it from other forms of guidance. Such clarification is particularly important because stakeholders in some jurisdictions may regard non-mandatory guidance as a recommended approach or best practice. The introduction of this new form of guidance further underscores the importance of the IPSASB's planned research into the overall architecture of its literature, as highlighted in the IPSASB 2025 Work Program Consultation.

Paragraph 5 of the ED cites the definition of material from IPSAS 1, which refers to decisions made by primary users based on an entity's GPFS. Footnote 2 states that this definition is consistent with the description of materiality in the Conceptual Framework. However, this may be confusing because the Conceptual Framework refers to decisions made by primary users based on an entity's GPFR. If the footnote is retained, the IPSASB should clearly explain the distinction between the scope of the two pronouncements, the rationale for the different terminology, and the implications of those differences. The IPSASB should also consider this distinction as part of its planned research into the architecture of its existing suite of literature.

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.

We support the adaptation of the examples, and the inclusion of new examples, to better reflect the application of materiality by the public sector. We agree with paragraph BC15 in the Basis for Conclusions to remove the guidance and example related to an entity's materiality judgments concerning *potential* primary users' information needs on the basis that primary users described in the Conceptual Framework do not include potential primary users.

Feedback received indicates that the examples in the ED are generally helpful in illustrating the concept of materiality and provide a useful starting point for applying the first two steps in the four-step materiality process (identify, assess, organise and review).

Comments on existing examples

We have some observations on certain examples included in the ED, and suggest the following enhancements:

- *Example D – Materiality Judgments on Presentation Specified by IPSAS Standards.* It is not clear why public scrutiny, on its own, justifies presenting cybersecurity costs as a separate line item in the statement of financial performance when the expense is not quantitatively material. The example should clarify why public scrutiny changes the materiality assessment and how the qualitative factor applies for the quantitatively immaterial expense. It would also be useful to explain how the cybersecurity expense (quantitative information) could provide qualitative information about the cybersecurity risk for the entity.
- *Example G – Primary Users' Unique or Individual Information Requests.* This example is useful to communicate the objective of a GPFS in order to demonstrate that primary users are a group rather than an individual donor from the group. We recommend that the example clarifies that the GPFS does not need additional disclosures based on an individual donor's specific requirements beyond the requirements of the IPSAS. Such

specific additional reporting requirements are on balance quantitatively and qualitatively immaterial.

- *Example K – Information about a Related Party Transaction Assessed as Material.* The maintenance services are described as a quantitatively immaterial expense which is qualitatively material on the basis that it is a related party transaction which may be priced at amounts different from those under normal commercial terms. The example would be more helpful if it explained how this qualitative factor (related party transaction) is sufficient to make an otherwise quantitatively immaterial transaction qualitatively material. Such an example could also benefit from an alternate scenario (or a different factor) which could change the assessment.
- *Example M – Influence of External Qualitative Factors on Materiality Judgments.* The example's application section refers to the Development Bank's "primary users". However, the primary users are not specifically identified, and it may be inferred to include the other Development Banks. We believe this example would benefit from clarifying who the primary users are.
- *Example Q – Current-Period Assessment of Cumulative Errors.* In this example, the rationale of how the reduction in budgeted expenditure is assessed alongside the cumulative error in coming to the materiality conclusion could be further discussed.

Recommendations for other additional examples

We have some concern that the examples are largely designed to illustrate specific principles or individual aspects of materiality. They do not demonstrate how preparers bring together multiple considerations and apply judgement holistically when making materiality assessments. This is particularly important in the public sector, where qualitative and quantitative factors often interact, scrutiny is high, and financial statements are prepared for a broad range of users. We therefore recommend the inclusion of some addional examples based on the alternative view (paragraph 5) as noted in our response to SMC 1.

We also recommend that the IPSASB considers including an example to demonstrate how a public sector entity assesses the materiality of information relating to a grant agreement and its associated conditions. This could be based on Example AusP.1 in [AASB Practice Statement 2 Making Materiality Judgements], adapted to reflect IPSAS terminology, including the terminology used in IPSAS 47 *Revenue*. Such an example would help address the concern raised in paragraph AV6 of the Alternative View that materiality judgements relating to public sector-specific requirements, including conditions attached to grants and transfers, should receive greater prominence in the guidance.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents nearly 143,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.