

**Meeting:** International Public Sector Accounting Standards Board

**Meeting Location:** Riyadh, Saudi Arabia

**Meeting Date:** December 10–13, 2024

## Agenda Item 4

For:

Approval

Discussion

Information

### MAKING MATERIALITY JUDGEMENTS

<b>Project summary</b>	This project aims to develop guidance to help entities make materiality judgements when preparing financial statements in accordance with IPSAS, using the IFRS® Practice Statement 2 <i>Making Materiality Judgements</i> as its basis.	
<b>Project staff lead</b>	<ul style="list-style-type: none"> <li>Agustina Llambi, Senior Manager</li> </ul>	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>As this is planned to be purely an alignment project, a task force is not anticipated to be required.</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Making Materiality Judgements Dashboard</a>	<a href="#">4.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">4.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">4.1.3</a>
	<a href="#">Making Materiality Judgements: Project Roadmap</a>	<a href="#">4.1.4</a>
<b>Decisions required at this meeting</b>	<a href="#">Making Materiality Judgements – Background to the Project</a> (for information purposes only)	<a href="#">4.2.1</a>
	<a href="#">Project Brief: Objective and Scope</a>	<a href="#">4.2.2</a>
	<a href="#">Project Brief: Key Issues</a>	<a href="#">4.2.3</a>
<b>Other supporting items</b>	<a href="#">[Draft] Project Brief, <i>Making Materiality Judgements</i></a>	<a href="#">4.3.1</a>

Prepared by: Agustina Llambi (November 2024)

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**MAKING MATERIALITY JUDGEMENTS:  
DASHBOARD**

Topic	Past Meetings	[MMM YYYY]	[[MMM YYYY]]	[[[[MMM YYYY]]]	[[[[[MMM YYYY]]]	[[[[[[MMM YYYY]]]
To be determined as part of the Project Brief approval						

Legend	
	Task Completed
	Planned IPSASB Discussion
	Page-by-page Review

**INSTRUCTIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Instruction</b>	<b>Actioned</b>
n/a	n/a	1. n/a

**DECISIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Decision</b>	<b>BC Reference</b>
September 2024	1. Add the limited scope project <i>Making Materiality Judgement</i> to the IPSASB's Work Program.	1. n/a

**MAKING MATERIALITY JUDGEMENTS:  
PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Actions or Discussions / Planned Actions or Discussions:</b>
	To be determined as part of the Project Brief approval

## **Making Materiality Judgements – Background to the Project**

### **Purpose**

1. To summarize the initial research on adapting IFRS® Practice Statement 2 *Making Materiality Judgements* (Practice Statement 2) to the public sector context.

### **Background**

2. *The Making Materiality Judgements*—Limited Scope project is a pre-commitment from the [2021 Mid-Period Work Program Consultation](#). The IPSASB received strong support for developing public sector-specific guidance on making materiality judgments when preparing financial statements using Practice Statement 2 as its basis.
3. In September 2024, the IPSASB added the project to its work program, now having available plenary time and staff resources.

### **Analysis**

#### *What is the nature of Practice Statement 2?*

4. The IASB issued Practice Statement 2 in September 2017 for application from September 14, 2017<sup>1</sup>. It provides reporting entities with non-authoritative guidance on making materiality judgments when preparing general purpose financial statements in accordance with IFRS Standards. Specifically, Practice Statement 2:
  - (a) Provides an overview of general characteristics of materiality.
  - (b) Presents a four-step process an entity may follow in making materiality judgments when preparing its financial statements.
  - (c) Provides guidance on how to make materiality judgments in specific circumstances: prior-period information, errors and covenants, materiality judgments for interim reporting, and information about accounting policies.
5. Practice Statement 2 aims to assist entities in making materiality judgments when preparing general purpose financial statements. Stakeholders noted that some entities are unsure how to make materiality judgments and tend to use disclosure requirements in IFRS Standards as a checklist instead of using judgment when deciding what information to provide in financial statements.
6. The IASB noted the difficulty of making materiality judgments and using IFRS disclosure requirements as a checklist contribute to a disclosure problem. This is described as reporting entities providing too much irrelevant information and not enough relevant information on their financial statements.

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<sup>1</sup> It has been amended since 2017 by IFRS 18 *Presentation and Disclosures in Financial Statements* (issued in April 2024), *Disclosure of Accounting Policies* (Amendments to IAS 1) issued in February 2021 and minor consequential amendments by *Amendments to References to the Conceptual Framework in IFRS Standards* (issued March 2018) and *Definition of Material* (Amendments to IAS 1 and IAS 8) issued October 2018.

## *Definition of Material in IASB literature*

7. Practice Statement 2 includes the definition of material found in the IASB's *Conceptual Framework for Financial Reporting* ('IASB's *Conceptual Framework*'), which is similar to the one in IFRS 18 *Presentation and Disclosures in Financial Statements*.
8. The alignment of the definitions of material across the IASB's literature resulted from the publication of *Definition of Material* (Amendments to IAS 1 and IAS 8) issued in October 2018.
  - (a) This publication refined the definition of material in IAS 1<sup>2</sup> with the IASB's *Conceptual Framework* by incorporating the existing description of material information in paragraph 7 of IAS 1<sup>3</sup>, emphasizing the need to ensure material information is not obscured and clarifying that the users to whom the definition refers are the primary users of an entity's financial statements.
  - (b) The definition of material in IAS 1 refers to 'financial statements' instead of 'financial reports' to remain consistent with the scope of that standard. Therefore, there is a reference to having a similar definition of material between the IASB's *Conceptual Framework* and IAS 1/IFRS 18 in Practice Statement 2.

*Is the public sector faced with a similar challenge in making materiality judgements?*

## Financial Reporting

9. The IPSASB received feedback during its [2021 Mid-Period Work Program Consultation](#) that entities in the public sector face challenges similar to those faced by the private sector in making material judgments when preparing financial statements in accordance with IPSAS.
10. The IPSASB added the project to its Work Program as a precommitment because the development of similar guidance to Practice Statement 2 satisfies the four criteria<sup>4</sup> for project prioritization. Furthermore, it is consistent with the [IPSASB's 2024-2028 Strategic Objective](#). This is documented in paragraphs 2.2 and 4.3 of the [Draft] Project Brief, *Making Materiality Judgements* ('Project Brief') in [Agenda Item 4.3.1](#), respectively.

## Sustainability Reporting

11. Similarly to financial reporting, an entity is expected to make materiality judgements when preparing climate-related disclosures. This is because making materiality judgements is not unique to financial reporting.
12. In October 2024, the IPSASB published [IPSASB SRS ED 1, Climate-related Disclosures](#). One of the proposals in IPSASB SRS ED 1 is to align the definition of materiality in that document with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.
13. While materiality applies both to financial and sustainability reporting, guidance to clarify the application of materiality to sustainability reporting is outside the scope of this project because:

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<sup>2</sup> This definition was carried over to IFRS 18.

<sup>3</sup> It incorporated the existing description of material information in paragraph 7 of IAS 1 '...the assessment needs to take into account how users [...] could reasonably be expected to be influenced in making economic decisions' [emphasis added].

<sup>4</sup> Project prioritization criteria are prevalence, consequences, urgency, and feasibility. See paragraph 2.2(a)-(d) in the [Draft] Project Brief in [Agenda Item 4.3.1](#).

- (a) **IPSASB SRS ED 1 is currently being exposed.** Developing guidance on making materiality judgements when preparing climate-related disclosures is not currently feasible<sup>5</sup>, because the IPSASB is currently seeking feedback on its materiality proposals as they relate to climate-related disclosures and due process has not been completed.; and
  - (b) **Practice Statement 2 guidance is limited to financial reporting.** In its [2021 Mid-Period Work Program Consultation](#), the IPSASB committed to adding a limited scope project to develop public sector guidance based on Practice Statement 2. Practice Statement 2 only relates to making materiality judgements on general purpose financial statements in accordance with IFRS Standards.
14. Staff notes that on November 19, 2024, the IFRS Foundation published [Sustainability-related risks and opportunities and the disclosure of material information—Educational Material](#). The IPSASB should consider this document and its applicability to the public sector at an appropriate point in the future.

*Can the Practice Statement 2 guidance be adapted to the public sector context?*

15. The IPSASB develops accounting standards and guidance for use by public sector entities. One way the IPSASB does this is by reviewing and adapting IASB documents where necessary. The IPSASB's policy paper [Process for Reviewing and Adapting IASB Documents](#) will guide the adaptation of Practice Statement 2 to the public sector context.
16. Staff notes that guidance provided in Practice Statement 2 references IASB documents for which there is an equivalent IPSAS/IPSASB document (see [Appendix A](#)), except for IAS 34 *Interim Financial Reporting*.

*Issues identified during the research and scoping of Making Materiality Judgements project.*

17. The following key issues are identified:
- (a) Aligning the definition of material across the IPSASB's literature;
  - (b) Status of guidance and type of document.
18. See [Agenda Item 4.2.3](#) for a description of the above key issues recommended for inclusion in the Project Brief in [Agenda Item 4.3.1](#).

### **Decision Required**

19. No decision is required.

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<sup>5</sup> Feasibility (IPSASB's project prioritization criteria): whether a technically sound solution to the issue can be developed within a reasonable time period and current resource constraints without impacting adversely on the completion of other projects.

**Appendix A – Equivalent IPSAS/IPSASB document for IFRS referenced in Practice Statement 2**

1. IFRS Practice Statement 2 *Making Materiality Judgements* references several IASB documents for which there is an equivalent IPSAS/IPSASB document<sup>6</sup> except for one:

<b>IASB Document</b>	<b>Equivalent IPSAS/IPSASB document</b>
<i>Conceptual Framework for Financial Reporting</i>	<i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i>
IAS 8 <i>Basis of Preparation of Financial Statements</i> <sup>7</sup>	IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors (Note 1)</i>
IAS 16 <i>Property, Plant and Equipment</i>	IPSAS 45, <i>Property, Plant, and Equipment</i>
IAS 24 <i>Related Party Disclosures</i>	IPSAS 20, <i>Related Party Disclosures</i>
IAS 34 <i>Interim Financial Reporting</i>	n/a
IAS 36 <i>Impairment of Assets</i>	IPSAS 26, <i>Impairment of Cash-Generating Assets</i>
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>
IFRS 3 <i>Business Combinations</i>	IPSAS 40, <i>Public Sector Combinations</i>
IFRS 7 <i>Financial Instruments: Disclosures</i>	IPSAS 30, <i>Financial Instruments: Disclosures</i>
IFRS 9 <i>Financial Instruments</i>	IPSAS 41, <i>Financial Instruments</i>
IFRS 15 <i>Revenue from Contracts with Customers</i>	IPSAS 47, <i>Revenue</i>
IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> <sup>8</sup>	IPSAS 1, <i>Presentation of Financial Statements</i> is primarily drawn from IAS 1 <i>Presentation of Financial Statements (Note 2)</i>

2. **Note 1:** IAS 8 was amended by IFRS 18. The amendments will be considered in conjunction with the *Presentation of Financial Statements* project in the current IPSASB's Work Program. Consideration of the potential implications of these amendments to the *Making Materiality Judgements* project will be considered as outlined in the IPSASB's policy paper [Process for Reviewing and Adapting IASB Documents](#).

<sup>6</sup> See [IPSAS-IFRS Alignment Dashboard](#)

<sup>7</sup> IFRS 18 changed the title of IAS 8 from *Accounting Policies, Changes in Accounting Estimates and Errors* to *Basis of Preparation of Financial Statements*.

<sup>8</sup> IFRS 18 for annual reporting periods beginning on or after January 1, 2027. Earlier application is permitted. It supersedes IAS 1.

3. **Note 2:** IFRS 18 superseded IAS 1. The amendments are part of the scope of the *Presentation of Financial Statements* project in the current IPSASB's Work Program. Consideration of the potential implications of these amendments to the *Making Materiality Judgements* project will be considered as outlined in the IPSASB's policy paper [Process for Reviewing and Adapting IASB Documents](#).

## **Project Brief: Objective and Scope**

### **Question**

1. Does the IPSASB agree with the staff recommendation on the objective and scope to be included in the Project Brief, *Making Materiality Judgements*?

### **Recommendation**

2. Staff recommends the IPSASB adopt the following project objective and scope in the project brief:  
*'Develop guidance to clarify how to make materiality judgments when preparing general purpose financial statements in accordance with IPSAS.'*

### **Background**

3. At the September 2024 meeting, the IPSASB agreed to initiate the limited scope project on *Making Materiality Judgements*. This project was a pre-commitment from the [2021 Mid-Period Work Program Consultation](#). The IPSASB agreed to develop accounting guidance aligned to IFRS® Practice Statement 2, *Making Materiality Judgements* ('Practice Statement 2').
4. Respondents to the 2021 Mid-Period Work Program Consultation indicated strong support for the IPSASB to develop aligned guidance with Practice Statement 2 that clarifies the principles an entity should consider when making materiality judgements in preparing general purpose financial statements ('GPFS') in accordance with IPSAS.

### **Analysis**

5. The IPSASB added the *Making Materiality Judgement* project to its Work Program, as it received feedback that entities are unsure how to make materiality judgments and tend to use disclosure requirements in IPSAS as a checklist instead of making materiality judgements on what information is material and should be included in GPFS.
6. Materiality is a pervasive concept in preparing financial statements. Entities need to make materiality judgements when making decisions about recognition, measurement, presentation, and disclosure in IPSAS. This is because entities preparing financial statements need not apply accounting policies in IPSAS when the effect of applying them is immaterial<sup>9</sup>.
7. Feedback received by the IPSASB notes there is a lack of guidance on how entities should make materiality judgements about what information to disclose in the notes to the financial statements. Therefore, the recommendation is for the project objective and scope to be:  
*'Develop guidance to clarify how to make materiality judgments when preparing general purpose financial statements in accordance with IPSAS.'*
8. The objective and scope proposed in paragraph 7 are consistent with:
  - (a) Why the IPSASB added this project as a precommitment in [2021 Mid-Period Work Program Consultation](#), and

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<sup>9</sup> Paragraph 10 in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*

- (b) Practice Statement 2's objective and scope, identified by the IPSASB as a basis to develop public sector specific guidance on making materiality judgments when preparing GPFS.
9. Paragraphs 4.1 and 5.1 of the Project Brief in [Agenda Item 4.3.1](#) reflect the recommended project objective and scope in paragraph 7, respectively. Paragraphs 4.4-4.6 of the Project Brief in [Agenda Item 4.3.1](#) provide an additional description of how to achieve the project's objective.

### **Decision Required**

10. Does the IPSASB agree with the Staff [recommendation](#)?

## **Project Brief: Key Issues**

### **Question**

1. Does the IPSASB agree with the staff recommendation on the key issues to be included in the [Draft] Project Brief, *Making Materiality Judgments* ('Project Brief')?

### **Recommendation**

2. Staff recommends the IPSASB include the following key issues in the Project Brief:
  - (a) Aligning the definition of material across IPSASB's literature; and
  - (b) Status of guidance and type of document.

### **Background**

3. At the September 2024 meeting, the IPSASB agreed to initiate the *Making Materiality Judgement – Limited scope project*, a pre-commitment from the [2021 Mid-Period Work Program Consultation](#).

### **Analysis**

4. During the research and scoping phase, staff identified some key issues that are recommended to be in the scope of the Project Brief:

#### *Aligning the Definition of Material across the IPSASB's Literature*

5. Practice Statement 2 provides non-authoritative guidance on making materiality judgements when preparing financial statements. Practice Statement 2 uses the definition of material from the IASB's *Conceptual Framework for Financial Reporting* ('IASB *Conceptual Framework*'), similar to<sup>10</sup> the one in IFRS 18 *Presentation and Disclosures in Financial Statements*.
6. However, the definition of material is different between IPSAS 1, *Presentation of Financial Statements*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* ('IPSASB's *Conceptual Framework*'). This is because IPSAS 1 predates the completion of the updated Chapter 3, *Qualitative Characteristics* of the CF (issued in 2024), and the IPSASB has yet to consider amending IPSAS 1 to reflect those updates. Additionally, there is a remaining difference between IPSAS and IFRS. The definition of material in IPSAS refers to 'users' while IFRS refers to 'primary users'.
7. Developing guidance on making materiality judgements requires aligning the definition of material across the IPSASB's literature. Therefore, this project should consider how best to address the inconsistencies in the definition of material to achieve alignment across the IPSASB's literature and to provide a firm basis for developing guidance on making materiality judgements in accordance with IPSAS.
8. This issue is described in paragraphs 5.3-5.6 of the Project Brief in [Agenda Item 4.3.1](#). In the March 2025 IPSASB meeting, staff will recommend how best to align the definition of material across the IPSASB's literature.

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<sup>10</sup> Similar to as opposed to consistent as the definition of material in IAS 1 refers to 'financial statements' instead of 'financial reports' to remain consistent with the scope of that standard. This was noted in Agenda Item 4.2.1

## *Status of Guidance and Type of Document*

9. The IPSASB will need to decide the authority of the guidance and the type of document such guidance is found. The IASB issued guidance on making materiality judgements as a Practice Statement, a standalone document providing non-authoritative guidance. If the IPSASB takes a similar approach to the IASB, it will need to decide what type of non-authoritative material is appropriate.
10. This issue is described in paragraphs 5.7-5.9 of the Project Brief in [Agenda Item 4.3.1](#). In the March 2025 IPSASB meeting, staff plan to provide recommendations to the IPSASB on the guidance's status and document type for the project's output.

## **Decision Required**

11. Does the IPSASB agree with the Staff [recommendation](#)?

**Supporting Document 1 - [DRAFT] Project Brief, *Making Materiality Judgements***

1. The [DRAFT] Project Brief, *Making Materiality Judgements* (Project Brief), referenced in Agenda Item 4.3.1, is posted separately for ease of reading.

*Review Instructions:*

2. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing the Project Brief:
  - (a) This supporting document is a preliminary draft of the Project Brief, which is targeted to be approved in the March 2025 IPSASB meeting and
  - (b) IPSASB members are asked to provide editorial comments to staff offline.