28 August 2026

The International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

RE: EXPOSURE DRAFT 97 - PROPOSED IPSAS PRACTICE STATEMENT*, MAKING MATERIALITY JUDGMENTS*

INTRODUCTION

1. The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions on the IPSASB's Exposure Draft 97 on the Proposed IPSAS Practice Statement*, Making Materiality Judgments* (Practice Statement).

2. SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 64 000 members and associates who are chartered accountants [CAs(SA)], associate general accountants [AGAs(SA)] and accounting technicians [ATs(SA)] whom amongst them hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, internal and external auditors, risk officers and leaders in their respective spheres of operation.

3. Our work in the public sector goes beyond member support but also includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.

EXECUTIVE SUMMARY

4. SAICA supports the IPSASB's development of non-mandatory guidance to assist preparers in making materiality judgements when preparing financial statements in accordance with IPSAS Standards. SAICA believes that the proposed Practice Statement has the potential to enhance the relevance, understandability, comparability and usefulness of public sector financial statements by supporting the appropriate application of judgement, encouraging the removal of immaterial information, and promoting consideration of both quantitative and qualitative factors.

5. SAICA recommends that the proposed Practice Statement be further strengthened to better reflect the public sector context. In particular, additional guidance should be provided on how accountability is discharged in the public sector, including through approved budgets and budget-to-actual information presented in accordance with IPSAS 24, *Presentation of Budget Information in Financial Statements*. SAICA also recommends the inclusion of public sector-specific examples addressing IPSAS Standards and related topics such as service concession arrangements, social

benefits, transfer expenses, tangible natural resources held for conservation, non-exchange transactions, including grants, and heritage assets.

6. SAICA further recommends that the IPSASB provide additional illustrative guidance on the interaction between qualitative and quantitative considerations. Such guidance should explain circumstances in which qualitative factors may result in quantitative thresholds being reduced to very low levels, or even to zero. SAICA also recommends that certain examples in the proposed Practice Statement be reconsidered or clarified, particularly Example L on related party transactions and Example N on prior-period information. In addition, further examples should be included to demonstrate how information should be assessed both individually and in combination with other information in the context of the financial statements as a whole.

7. SAICA also recommends that the proposed Practice Statement include guidance on the documentation of materiality judgements. Such guidance should encourage preparers to document and disclosed in the financial statements the key factors considered, the rationale for including or excluding information from the financial statements, and how the information needs of primary users were assessed. This would support consistency, transparency, comparability (year-on-year within the entity and across other public sector entities), auditability and accountability in the materiality judgement process.

8. SAICA further recommends that the proposed Practice Statement should clarify that materiality judgements are the responsibility of management, while recognising that auditors may appropriately challenge those judgements as part of the audit process. In this regard, the IPSASB may wish to consider the guidance in paragraph 1.8 of the Accounting Standards Board of South Africa's Guideline on the Application of Materiality to Financial Statements, which may provide a useful reference point for how this guidance could be articulated in the Practice Statement.

OVERALL CONCLUSION

9. SAICA appreciates the opportunity to comment on Exposure Draft 97, *Proposed* IPSAS Practice Statement, *Making Materiality Judgments*. SAICA supports the IPSASB's initiative to provide non-mandatory guidance that assists preparers in applying materiality judgements when preparing financial statements in accordance with IPSAS Standards. We believe that the final Practice Statement would be further enhanced by providing additional public sector-specific guidance and illustrative examples, particularly in relation to accountability, budget information, qualitative materiality factors, public sector-specific IPSAS requirements, and the assessment of information both individually and in combination with other information in the financial statements as a whole.

10. Overall, SAICA encourages the IPSASB to ensure that the final Practice Statement is sufficiently tailored to the public sector context, provides practical public sector-specific examples, and supports consistent, transparent and meaningful application of materiality judgements by preparers of financial statements prepared in accordance with IPSAS Standards.

11. SAICA encourages the IPSASB to consider the recommendations set out in this submission in finalising the Practice Statement, as these enhancements would support more consistent, transparent and meaningful application of materiality judgements in the public sector.

12. Our detailed comments relating to the specific matters for comment are including in Annexure A to the this letter.

13. SAICA would welcome the opportunity to engage further with the IPSASB on the matters raised and would be pleased to discuss our comments, if required. Please do not hesitate to contact Odwa Benxa at odwab@saica.co.za in this regard.

Kind regards,

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Annexure A – 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.*

14. SAICA supports the development of non-mandatory guidance on making materiality judgements when preparing financial statements in accordance with IPSAS Standards. In our view, the proposed Practice Statement would assist preparers by providing a structured and consistent approach to the exercise of materiality judgements, supporting the reduction of unnecessary disclosures, and enhancing the relevance, comparability and understandability of financial statements while supporting the realisation of the accountability objective of financial statements. The guidance is particularly important in the public sector context, as it reinforces the need to consider qualitative factors, including stewardship, service delivery and legislative compliance, when assessing whether information is material. However, SAICA believes that the proposed Practice Statement should be enhanced to ensure that it has a greater impact in the public sector based on concerns identified and recommendations, particularly in relation to the alternative view presented in the Exposure Draft. These matters are set out below under the alternative view section of this comment letter.

Alternative View (AV)

Primary users' accountability needs are not adequately incorporated

15. SAICA supports the alternative view that, although the proposed Practice Statement appropriately acknowledges that material information is information that could reasonably be expected to influence the discharge of an entity's accountability or the decisions of primary users, it does not sufficiently explain how accountability is discharged in the public sector in practice. In particular, further guidance is required to highlight the significance of the approved budget and the presentation of budget and actual information in financial statements as key mechanisms through which public sector entities demonstrate accountability for the resources entrusted to them.

16. IPSAS 24, *Presentation of Budget Information in Financial Statements* (IPSAS 24), requires an entity to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts. It also requires an entity to disclose, in the notes, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts. These disclosures provide primary users with important information for accountability purposes, including information on how the entity has utilised the resources made available to it in delivering on its objectives. Accordingly, guidance on the application of materiality judgements to information presented in accordance with IPSAS 24, particularly the identification and explanation of material variances between budget and actual amounts, would be useful for preparers of financial statements prepared in accordance with IPSAS Standards. In the absence of such guidance, there is a risk that entities may apply inconsistent approaches when reporting and explaining variances, which may weaken the usefulness of budget-to-actual information as a mechanism for demonstrating accountability for public resources.

17. In addition, the presentation of budget information in financial statements is a public sector-specific requirement and a key mechanism through which public sector entities demonstrate accountability. In this regard, budget accountability is an area in which the proposed Practice Statement could be further differentiated from its IFRS equivalent. Providing additional guidance on the application of materiality judgements to information presented in accordance with IPSAS 24 would therefore support the objective of the Exposure Draft, namely to adapt IFRS® Practice Statement 2, *Making Materiality Judgements*, to the public sector context.

18. SAICA further believes that the inclusion of illustrative examples would support the practical application of materiality judgements to information presented and disclosed in accordance with IPSAS 24.

19. SAICA recommends that the proposed Practice Statement be amended to include guidance on the application of materiality judgements to information presented in accordance with IPSAS 24, with specific focus on the identification and explanation of material variances between budget and actual amounts presented in the financial statements. SAICA also recommends that illustrative examples be included to support the application of the materiality judgements guidance in this context.

The ED should discuss public sector specific IPSAS Standards requirements and how to apply materiality in that context

20. SAICA supports the alternative view that the proposed Practice Statement would better achieve its objectives if it gave greater prominence to materiality judgements in relation to public sector-specific IPSAS Standards requirements.

21. The proposed Practice Statement should include public sector-specific examples demonstrating the application of materiality judgements to public sector-specific IPSAS Standards and related topics. These could include, in particular, IPSAS 24, *Presentation of Budget Information in Financial Statements*; IPSAS 32, *Service Concession Arrangements: Grantor*; IPSAS 42, *Social Benefits*; IPSAS 48, *Transfer Expenses*; IPSAS 51, *Tangible Natural Resources Held for Conservation*; non-exchange transactions, including grants; and heritage assets. These standards and topics are closely linked to public accountability, service delivery, legislative compliance and stewardship of public resources. As a result, they often require materiality assessments in which qualitative factors may be more significant than quantitative thresholds. Illustrative guidance on these matters would therefore be useful to preparers and would demonstrate how qualitative factors may be applied when making materiality judgements in financial statements.

22. SAICA further agrees that loan covenants are generally less prevalent in the public sector, particularly in the South African context, and, consequently, the inclusion of guidance on loan covenants in the proposed Practice Statement may be of limited benefit to preparers and users of financial statements prepared in accordance with IPSAS Standards. In SAICA's view, it would be more beneficial for the proposed Practice Statement to include guidance on the application of materiality judgements to public sector-specific IPSAS Standards and topics, such as IPSAS 24, IPSAS 32, IPSAS 42, IPSAS 48, IPSAS 51, non-exchange transactions and heritage assets.

23. SAICA recommends that the proposed Practice Statement be amended to include public sector-specific examples that demonstrate the application of materiality judgements to public sector-specific IPSAS Standards and topics. SAICA further recommends that the guidance on loan covenants be removed and replaced with guidance addressing public sector-specific standards and topics. This would better support the objective of adapting IFRS® Practice Statement 2, *Making Materiality Judgements*, to the public sector context.

The interaction of qualitative and quantitative considerations requires further development for the public sector

24. SAICA supports the alternative view that the Exposure Draft should provide additional guidance, supported by illustrative examples, explaining how public sector entities should identify and apply qualitative factors when making

materiality judgements. This guidance should include circumstances in which qualitative considerations may result in quantitative thresholds being reduced to very low levels, or even to zero.

25. Paragraph 57 of the proposed Practice Statement states that, in some circumstances, an item of information could reasonably be expected to influence the discharge of accountability by the entity or the decisions of primary users irrespective of its amount, such that a quantitative threshold could be reduced to zero. The paragraph further explains that this may occur where information about a transaction, other event or condition is highly scrutinised by the primary users of an entity's financial statements, and that information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature. It also acknowledges that a quantitative assessment is not always possible, as non-numeric information may only be assessed from a qualitative perspective. However, the proposed Practice Statement does not include examples demonstrating circumstances in which qualitative factors may lead to quantitative thresholds being reduced to zero.

26. SAICA believes that the inclusion of an illustrative example would assist preparers, particularly because qualitative factors may carry heightened significance in the public sector due to the service delivery mandates of public sector entities and their accountability for the services delivered. SAICA therefore recommends that the IPSASB include an example demonstrating circumstances in which qualitative factors may result in quantitative thresholds being reduced to zero.

<u>Specific Matter for Comment 2</u>

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.

27. SAICA agrees that the illustrative examples provided in the proposed Practice Statement are helpful in demonstrating the application of materiality judgements when preparing financial statements in accordance with IPSAS Standards. However, SAICA has identified certain concerns and recommendations relating to specific examples, as set out below.

<u>Example L</u>

28. SAICA acknowledges that Example L is intended to demonstrate the application of materiality judgements in circumstances where information about a related party transaction is assessed as immaterial. However, paragraph 22 of IPSAS 20, *Related Party Disclosures*, provides that the materiality of an item is determined with reference to the nature or amount of that item. Paragraph 22 further states that, when assessing the materiality of related party transactions, the nature of the relationship between the reporting entity and the related party, and the nature of the transaction, may mean that a transaction is material irrespective of its amount. In the circumstances described in Example L, the vehicle was sold to a company controlled by a member of the entity's key management personnel. Accordingly, the nature of the relationship and the nature of the transaction may indicate that the transaction is material, notwithstanding that the amount involved is small. While the example states that the impact of the transaction is too small to reasonably be expected to influence primary users' decisions, SAICA is of the view that the transaction may be relevant to users' assessment of the reporting entity's accountability for the use and disposal of its assets. To this end, while the example concludes that the outcome is likely immaterial quantitatively, which would be supported by IFRS, the public sector context and those qualitative indicators of materiality such as influence, may render it more than immaterial when considered overall.

29. For the reasons outlined above, SAICA recommends that the IPSASB reconsider the use of a related party transaction to demonstrate circumstances in which information is assessed as immaterial. Qualitative factors are often particularly

important when assessing the materiality of related party transactions and may result in a transaction being assessed as material even where the amount involved is small. Alternatively, SAICA recommends that Example L be amended to expand the rationale for concluding that, in the specific facts and circumstances of the example, quantitative considerations outweigh the qualitative factors associated with the related party relationship and the nature of the transaction. In addition, SAICA recommends that the IPSASB consider using other IPSAS Standards with explicit materiality judgement requirements to demonstrate these concepts more appropriately in the public sector context.

<u>*Example N*</u>

30. Paragraph 72 of the proposed Practice Statement provides that an entity should present prior-period information that is necessary for primary users to understand the current-period financial statements, irrespective of whether that information was presented in the prior-period financial statements. Accordingly, where prior-period information that was not previously disclosed is necessary to understand the current-period financial statements, that information should be included. SAICA acknowledges that Example N usefully demonstrates the application of materiality judgements to prior-period information that was not previously presented in the financial statements.

31. SAICA notes that preparers may interpret the requirement to include prior-period information not previously presented as indicating that a prior-period error has occurred in terms of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. To avoid potential confusion, SAICA recommends that Example N be amended to clarify that the inclusion of prior-period information in the current-period financial statements, where such information is necessary to understand the current-period financial statements, does not necessarily constitute a prior-period error under IPSAS 3. SAICA further recommends that the IPSASB expressly state that the inclusion of the prior-period debt maturity analysis in Example N would not, in itself, amount to a prior-period error in terms of IPSAS 3.

Additional example for consideration

32. Paragraphs 62 to 65 of the proposed Practice Statement require preparers to assess whether information is material both individually and in combination with other information in the context of the financial statements as a whole. While SAICA supports this principle, further guidance would be useful on how preparers should perform such aggregation assessments in the public sector context. This may be particularly important where individually immaterial items, when considered together, could indicate significant accountability, service delivery, governance or stewardship concerns. In SAICA's view, the inclusion of additional public sector-specific examples illustrating the application of paragraphs 62 to 65 would support more consistent application of the guidance and reduce diversity in practice.