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International Public Sector Accounting Standards Board (IPSASB)
70 York Street, Suite 710
Toronto, ON M5J 1S9 Canada

Re: Response to Exposure Draft 97, IPSAS Practice Statement, *Making Materiality Judgments*

Thank you for the opportunity to provide feedback on Exposure Draft 97, IPSAS Practice Statement, *Making Materiality Judgments*. PSAB acknowledges the IPSASB's continued commitment to the development of high-quality international public sector accounting standards (IPSAS) and supports the IPSASB's initiatives to maintain and enhance the IPSAS suite as well as its efforts to develop non-authoritative guidance to assist in areas where interpretation and application challenges exist.

Our response addresses Specific Matters for Comment (SMC) 1 and 2, from the Canadian public sector perspective. PSAB's views outlined in this letter were also informed by discussions with PSAB's Technical Advisory Group, and PSAB's Public Sector Accounting Discussion Group. While we are generally supportive of the proposals outlined in the proposed Practice Statement, there are a few items that we have brought to your attention that may warrant additional consideration.

Additionally, we would like to highlight that PSAB is in agreement with the development of a new type of document, Practice Statements, and the form of the guidance being proposed as non-mandatory as a means of underscoring the pervasive nature of materiality judgments in the preparation of financial statements, and to stimulate improved application of professional judgment in matters of recognition, measurement and presentation. This type of non-mandatory guidance is similar in nature to PSAB's Public Sector Statements of Recommended Practice (SORPs) which provide a non-mandatory framework for the provision of supplementary financial reporting, such as financial statement discussion & analysis.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Michael Puskaric, Director, Public Sector Accounting Standards Board (+1 416 204-3451 or email mpuskaric@psabcanada.ca).

Kind regards,

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RESPONSES TO SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1: Adaptation of Practice Statement 2 guidance for the public sector

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.

Response

PSAB generally agrees with several aspects of IPSASB's adaptation of Practice Statement 2 guidance for the public sector context including deferring the section on accounting policy changes until IPSAS 1, *Presentation of Financial Statements,* is finalized, and the removal of guidance for materiality judgments for interim financial reporting which is not commonplace in the public sector.

While we are in general agreement with adaptation, there are some aspects that may warrant additional consideration which have been summarized below.

Topic	Rationale
BC12(b) – Definition of primary users	PSAB recommends that alignment with IPSASB's Conceptual Framework is added to the explanation provided in paragraph BC12(b) to describe the impetus for the change in definition. Paragraph 12(b) of the proposed Practice Statement Basis for Conclusions notes that the definition of primary users was revised to 'service recipients and their representatives and resource providers and their representatives' but does not explicitly state the reason for the change. While the Conceptual Framework paragraph 2.4 is included in the Appendix that summarizes the Conceptual Framework references, it may be beneficial to add Conceptual Framework alignment as the reason for the change in primary user definition in paragraph 12(b) of the Basis for Conclusions.
BC15 - "Potential" primary users	PSAB recommends that the IPSASB give consideration as to whether maintaining paragraph 14 of the proposed Practice Statement, is aligned with paragraph BC15. Paragraph 14 of the proposed Practice Statement notes "Because primary users include **potential** service recipients and resource providers, it would be inappropriate for an entity to narrow the information provided in its financial statements by focusing only on the information needs of existing service recipients and resource providers" and

Topic	Rationale
	the BC outlines that the guidance concerning potential primary users has been deleted as it is not included in the Conceptual Framework definition of primary users. The term 'service recipients' includes citizens and their representatives which indicates broad inclusion for all individuals and organizations that may be service recipients. Paragraph 14 may be redundant based on the detail outlined in paragraph 13 and may be contradictory to paragraph BC15. Additional consideration as to whether to maintain paragraph 14 may be warranted.
BC16 - Budget information	PSAB recommends that the IPSASB reconsider the decision to forego the development of guidance on making materiality judgments relative to the presentation of an entity's budget and the related budget to actual comparison, when an entity has an approved, publicly available budget. That is, PSAB recommends that the IPSASB give consideration to including guidance on making materiality judgments relative to presenting budget to actual variances and variance explanations. Paragraph 21 of IPSAS 1, *Presentation of Financial Statements*, outlines that a budget to actual comparison, when an entity has an approved publicly available budget, is required in a complete set of financial statements. Additionally, paragraph BC6 of IPSAS 24, *Presentation of Budget Information in Financial Statements*, supports this notion and describes reporting on an entity's compliance with a legally adopted budget as a component of an entity's discharge of accountability. Additionally, IPSASB's Conceptual Framework notes that primary users need information that supports the assessment of the performance of the entity which includes meeting its service delivery, and other operating and financial objectives. An entity's budget has similar importance in Canada. PSAB's Conceptual Framework (CF) considers the inclusion of budget information, and the comparison between the budget and actual results to be fundamental aspects of demonstrating accountability. Specifically, it meets the financial reporting objective of demonstrating the entity's performance in accordance with financial authorities and plan. Inclusion of guidance to support materiality judgments in the presentation of the explanations of the budget to actual variances would benefit interested and affected parties and support the overall objective of IPSASB's phased project on materiality,

Topic	Rationale
	which is to address difficulties in making materiality judgments when preparing general purpose financial reports.
Stipulations	PSAB recommends that the IPSASB give consideration to explicitly including language describing revenue with stipulations in paragraphs 83 to 85. While this section of the proposed Practice Statement is primarily focused on financing covenants, which are relevant to the public sector, a more prevalent transaction with agreement terms is non-exchange revenue with stipulations. Amending or revising the language of this section to be more clearly inclusive of obligations arising from non-exchange revenue transactions and other complex contracts with stipulations would be useful for primary users to ensure they are not only considering financing. This could be achieved by adding "obligations, and stipulations" to the title of the portion of the proposed Practice Statement. Inclusive language relating to revenue stipulations and obligations could then be added to paragraphs 83 to 85 to ensure it's clear to users that this section is intended to apply to all types of agreement terms.
Obscuring information	PSAB recommends that the IPSASB give consideration to elaborating on how materiality applies when information may be obscured due to over- aggregation or over-disaggregation, both on the face of the financial statements and/or in the notes. In practice, the concept of omitting and misstating are widely understood and clear, but the concept of obscuring is relatively new and less understood.

Specific Matter for Comment 2: Illustrative Examples

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.

Response

PSAB finds the examples in the proposed Practice Statement to be generally helpful in illustrating the application of materiality principles in a public sector context. It's important to acknowledge that having excessive illustrative examples may begin to encroach or have the appearance of encroaching on professional judgment. While the proposed guidance does currently contain a generous number of examples, PSAB has identified some specific, and prevalent circumstances in the public sector that would benefit from an illustrative example. Consideration may be warranted for whether circumstances outlined in the table below are well-suited to replace some of the existing scenarios while still demonstrating the intended materiality judgment.

Topic	Rationale
Qualitative assessments of broader public accountability implications	PSAB recommends that the IPSASB consider an illustrative example demonstrating the application of materiality to qualitative considerations, particularly where information may be quantitatively immaterial but has significant implications for accountability and future service delivery. This could include circumstances involving regulatory non-compliance (e.g., social benefit payments made to ineligible recipients, or a local government contravening their own investment by-laws), uncertainty around an entity's ability to sustain service delivery (e.g., entities facing cost pressures and restrictive funding stipulations), and the impact of externally generated publicly available information (e.g., legal decisions or sector innovations) on an entity's future service potential. <u>Rationale</u> The public sector is unique in that accountability to broad primary users is central, and information needs extend beyond purely financial measures. As a result, information that is quantitatively immaterial may nonetheless be qualitatively material due to its broader implications on service delivery and service potential. Regulatory non-compliance and control failures, even when immaterial in amount, may represent significant breaches of trust, expose entities to reputational risk, and signal weaknesses in governance that could affect future service potential. Similarly, uncertainty surrounding an entity's ability to sustain service delivery, particularly in cases where funding arrangements impose cost-reduction stipulations or other constraints, introduces important forward-looking considerations for users assessing long-term financial health and service capacity. In addition, public sector entities are frequently affected by information originating outside the reporting entity, such as legal precedents, regulatory changes, or innovations in service delivery models in other jurisdictions. While not internally generated, such information may have significant implications for an entity's operations, strategic direction, and service delivery model, and may not be readily apparent to primary users without appropriate disclosure. An illustrative example would demonstrate how qualitative factors, including the nature and implications of non-compliance, service sustainability risks, the enforceability and

Topic	Rationale
	consequences of funding stipulations, and the impact of external information should inform materiality judgments beyond quantitative thresholds.
Non-exchange revenue transactions	PSAB recommends that the IPSASB consider including an illustrative example addressing materiality judgments related to conditional non-exchange revenue transactions (government transfers, grants, and donations). An example illustrating qualitative assessment of materiality may be particularly relevant with respect to government transfers, where a quantitative assessment may not reflect the needs of primary users, particularly where the nature of conditions is such that they are not quantitatively material but qualitatively demonstrate potentially material information regarding service potential). For instance, a health authority receives a transfer subject to stipulations to meet wait-time targets and implement a shift to community-based diagnostics. During the year, the authority does not meet the wait-time targets and does not fully implement the transition, resulting in a small, quantitatively immaterial reduction in future funding. Despite the immaterial amount, the unmet stipulations and partial implementation signal challenges in achieving a change in service delivery model and indicate a potential impact on future service capacity. As such, this information would be qualitatively material to users. This example would differ from Example J in that there is a clear impact on future service capacity. Example J highlights an assessment of facts that disclose unique aspects of the acquisition of the asset, but not a clear impact on the entity's future service. <u>Rationale</u> Conditional government transfers are one of the most common and financially significant transactions in the public sector, including Canada. The application of materiality to the disclosure of conditions, stipulations, restrictions, performance obligations, and potential restitution provisions under IPSAS 47 is an area where preparers may exercise considerable professional judgment. An illustrative example would help demonstrate how qualitative factors such as the nature of a transfer's conditions, enforceability of those stipulations, the probability of restitution, and its potential reputational and service-delivery consequences should inform materiality judgments beyond the quantitative factors when determining whether additional disclosure is necessary. This would also reinforce the concept from paragraph 19(a)(iii)

Topic	Rationale
	of the proposed Practice Statement that compliance with budgetary and other authority is a core information need of primary users.
Budget to actual comparison	PSAB recommends that the IPSASB consider including an example of a public sector entity diverging from their planned activities in the year in a manner that is not quantitatively material but qualitatively is. An example of this is a change in a program that is cost neutral, but materially different substance from the planned programming. <u>Rationale</u> Public sector entities provide programs and services to a broad range of users. In Canada, many primary users rely on public sector programming for multiple aspects of their daily lives. Changes to those programs can have widespread implications for primary users. This differs from the private or for-profit sector in that many of the primary users access these programs and services without paying a specific fee at the time of accessing the service or program. It is also common that there is not an alternative to the program or service being provided by the public sector entity, or the alternative is cost prohibitive for the primary user. This example would demonstrate the intersection between quantitative and qualitative considerations of material information relating to the budget to actual comparison. Changes to service delivery models that are almost cost neutral may still have material implications for long term service capacity if the outcomes of the service or program are significantly different.

Additional considerations

1. Practice Statements in the IPSASB standard setting ecosystem

PSAB recommends that the IPSASB give consideration to highlighting the intention, or scope of Practice Statements in an Introduction to Practice Statements or a Preface in addition to what is included in the Introduction or Basis for Conclusions. It may not be initially clear to users that this is a new type of guidance within the IPSASB standard setting ecosystem, and it is a significant development. Users may have feedback on the purpose and scope of this type of guidance generally that could be useful to the IPSASB.