

Ian Carruthers
Chair
IPSASB
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

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Subject: IPSAS ED 93, *Definition of Material*

Dear Mr Carruthers,

Accountancy Europe is pleased to provide you with its comments on ED 93 *Definition of Material*.

We welcome the IPSASB's efforts to streamline the concept of materiality and primary users across IPSAS standards.

With regard to the definition of material, we broadly agree with the revised definition.

We are, however, sceptical about the added value of the new addition of primary users and we do not believe it will, alone, have a huge impact on the current practice. In our view, the concept of primary users in public sector entities remains too broad. As opposed to the private sector, primary users in the public sector might have divergent information needs that might not all be fulfilled by general purpose financial reports (GPFR) – or by different elements of the GPFR.

In this respect, it is not always straightforward to identify the primary users and their specific needs and this could mean that adaptation of IFRS Practice Statement 2 *Making Materiality Judgments* envisaged in Phase 2 may be problematic due to the wider base of public sector primary users of GPFR when compared to the private sector.

We suggest the IPSASB to develop application guidance and principles to help public sector entities identifying their primary users. This could be done as part of the second phase of the project.

We provide our comments to the specific matters for consideration below.

Sincerely,



Eelco van de Enden
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 49 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

AMENDMENT: PART 1 – AMENDMENTS TO THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

DEFINITION OF MATERIAL

We support the addition of “discharge of accountability” to the definition of “material.” This is a key concept that enables the primary users of GPFR to hold entities accountable for its decisions to use resources in specific ways. However, there is a need for clear guidelines and principles on the identification of primary users as further elaborated below.

Considering “accountability” when assessing materiality ensures that non-financial implications (e.g. achieving service delivery goals or sustainability related impacts) are also taken into account in the preparation of GPFR and may focus the preparers on providing information that genuinely enhances the user’s understanding of how the entity performed against its public service mandate.

We also agree with the addition of “obscuring” in the definition, as this will help preparers better decide the level of detail they should present on certain disclosures. It will also serve as a basis when discussing materiality with auditors.

PRIMARY USERS

At this stage, we do not believe that the new clarification related to primary users, alone, will have a significant impact on the current practice. In our view, the range of primary users in the public sector remains very wide and their needs are often contradictory, and, in many cases, difficult to identify.

For instance, elected representatives have a wide range of interests that cannot be reduced to (or even focused on) financial figures.

It is also important to note that, like in the private sector, many users would not get their information directly from the financial statements, but more likely through an intermediary, such as a news service, analyst or civil society.

One approach to address this issue would be to further narrow the definition of primary users to come to the “primary user” that still represents a sufficiently large number of all general users.

Another approach could be to acknowledge that different primary users may have different focuses within a set of public sector GPFR. For example, providers of finance may be primarily interested in the financial statements whereas service recipients may be more interested in disclosures under *RPG 3 Reporting Service Performance Information*. The materiality for these different users is likely to be different.

Similarly, a tension exists in the public sector between the notion of materiality for financial audit purposes and what would be material for primary users of public sector GPFR. In the private sector, there is clear relationship between the information requirements of users and their sensitivity to material misstatement. In the public sector this relationship is not so clear.

For example, a public sector entity’s statement of financial position may contain assets and liabilities that are highly material in financial terms (e.g. pension assets and liabilities) that have little potential impact on the entity’s ongoing ability to deliver service potential – which is likely to be the key focus of many primary users, as currently defined. Auditing standards, be they International Standards on Auditing (ISAs) or locally developed standards specific to public sector entities, do not normally permit certain areas to be audited with a higher level of materiality than that set as the financial statement-level of materiality but it could be beneficial for preparers, auditors and users to have different

materiality levels for different sections of the GPFR. This could be an aspect that the IPSASB could consider in the second phase of the project.

Given the challenges and the level of judgement required in identifying their primary users, as part of the second phase we also suggest that the IPSASB provides more guidance and principles to help entities identifying these primary users and the appropriate level of materiality appropriate for the different types of primary users.