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Mr. Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

Comments on Exposure Draft 97
"IPSAS Practice Statement, Making Materiality Judgments"

Dear Mr. Smith,

The Japanese Institute of Certified Public Accountants (hereafter "JICPA") highly respects the International Public Sector Accounting Standards Board (hereafter "IPSASB") for its continuous effort to serve the public interest. We are also pleased to comment on Exposure Draft 97 "*IPSAS Practice Statement, Making Materiality Judgments*" (hereafter "ED"). Our comments to ED are as follows.

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.*

Comment:

We agree except for the following points.

(1) Additional explanations regarding materiality of budget information

BC16 and BC17 state that the interaction between materiality judgments and approved budgets is outside the scope of the project.

On the other hand, paragraphs 2.19–2.21 of the Conceptual Framework indicate that users need information on whether resources are raised and used in accordance with approved budgets. Paragraph 14 (c) of IPSAS 24 "Presentation of Budget Information in Financial Statements" also requires disclosure of an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts. In addition, BC2.19 of the Conceptual Framework shows that compliance with budgetary authority is an important element in assessing accountability in the public sector. Moreover, paragraph 19 of the ED shows that users need information for assessing compliance with budgetary authority.

In the public sector, budgets are an important foundation for fulfilling accountability, and budget-actual differences and non-compliance with budgetary authority may significantly affect decision-making and accountability assessment by users.

Therefore, concise explanations and examples should be added, at a minimum, on the following matters.

- Approach to materiality judgments on "material differences" between budget and actual amounts described in IPSAS 24.
- Situations where budget information is material from accountability perspectives, such as budget overruns, unspent budgets, or non-compliance with budget authority.
- Approach to presentation and disclosure aimed at preventing material budget difference and budget compliance information from being buried in many minor budget disclosures.

(2) Consistency in descriptions of potential users

BC15 explains the deletion of reference to "potential users."

However, paragraph 14 of the core text continues to mention "potential service recipients and resource providers," maintaining the approach to "potential" users, although it is considered an adaptation of Practice Statement 2, paragraph 14, to the public sector context.

This seems to create inconsistency between the explanation in BC15 and the description in paragraph 14.

Paragraph 14 should be either deleted or corrected/clarified to be consistent with BC15.

(3) Addressing funding and other public-sector-specific conditions

BC22 explains that, regarding the section "Information about covenants," materiality judgments on funding conditions are out of the scope of the guidance.

However, for many public sector entities, items like those stated below are more common than covenants on borrowings and have big impacts on accountability assessments by users.

- Grant conditions
- Conditions attached to intergovernmental transfers

- Usage restrictions on budget execution
- Constraints over specific-purpose financial resources

Therefore, to more fully achieve the ED's objective of adaptation to the public sector context, approaches to or examples of materiality judgments regarding public-sector-specific conditions, including funding and grant conditions, should be added.

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.

Comment:

Adding examples on the points below should be considered.

(1) Examples regarding non-exchange transactions

The examples included in the ED are adapted to suit the public sector context, but many of them are themed on fixed assets, financial instruments, transactions with related parties, and the like.

In many cases in the public sector, however, non-exchange transactions, such as subsidies, grants, donations, intergovernmental transfers, and specific-purpose resources, serve as material resources.

Therefore, examples should be added to cover situations such as those listed below.

- Non-compliance with subsidy or grant conditions
- Use of restricted funds
- Occurrence of use for unintended purposes
- Disclosure judgment on conditional transfer of resources

These cases relate to public-sector-specific accountability and resource management responsibilities. We thus consider them useful for deepening understanding of qualitative factors in making materiality judgments.

(2) Examples regarding qualitative materiality

The ED explains that disclosure of information about compliance or non-compliance with legislation, regulation, or rules may be material because of its nature. In addition, the ED points to the importance of considering not only quantitative but also qualitative materiality.

However, we consider that qualitative materiality carries more weight than quantitative materiality does in the public sector—more so than in the private sector—and is often treated as material information even in small amounts.

Given this, examples handling topics like those listed below should be added.

- Law, regulation, or rule violations
- Violation of the conditions for receiving subsidies or grants
- Inappropriate or fraudulent expenditure
- Deficiencies in bidding or procurement procedures
- Major incidents related to information security or personal information management

Even if in small amounts, these may have a significant impact on accountability assessments by primary users.

Therefore, it is beneficial to add examples showing public sector cases where quantitative materiality thresholds are being significantly lowered due to qualitative factors.

(3) Examples regarding service potential

We consider that existing examples concerning the application of the concept of materiality serve as useful references overall. Some of them, however, assume specific entities. Therefore, it is beneficial to add examples that handle issues that can arise commonly in broader public sector entities.

Specifically, we propose adding examples focusing on the service potential of assets held by public sector entities.

In addition, materiality judgments concerning public sector assets sometimes consider how material those assets are in providing public services, in addition to monetary size.

For example, assets listed below may be judged to be material given their impact on the entity's service potential, even if it is not clear, based on monetary materiality alone, whether stating them separately or additional disclosure is required.

- Infrastructure assets
- Hospital facilities

- School facilities
- Information systems
- Other assets indispensable for providing public services

Examples like these demonstrate in concrete terms that, in the public sector, the materiality concept applies not only to financial size but also to the objective of providing public services. Accordingly, we consider such examples useful for broader public sector entities.

Yours sincerely,

Soichiro Yamazaki
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