



1 February 2016

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Dear Kris

IFRS Practice Statement: Application of Materiality to Financial Statements

CPA Australia welcomes the opportunity to respond to the above Consultation. CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the development of guidance on applying materiality in the preparation of financial statements, which remains a challenge. We have provided below our overall comments, with more detailed responses to specific questions provided in the attached Appendix.

- The staff paper setting out the proposal to undertake a project on materiality presented at the March 2014 IASB meeting expected the project and its outcomes to encourage more effective dialogue about materiality judgments between preparers, auditors and regulators, contributing to a positive change in behaviour in the preparation, audit and review of the financial statements. In our view, we believe the proposals will fall short in achieving the desired objective of a change in behaviour amongst those who have an insufficient grasp of how to apply materiality in practice.

In our view, the Practice Statement should be drafted with more practical guidance on the application of materiality. We believe preparers and other stakeholders will benefit from a more practical and systematic approach to applying materiality, particularly in addressing disclosures and assessing qualitative factors when considering whether information is material for inclusion in the financial statements.

- The guidance is unnecessarily lengthy as it reproduces text from IFRS throughout. We suggest including such text in an appendix to make the guidance more user-friendly.

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian, CPA Australia by email at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Eva Tsahuridu', written in a cursive style.

Dr Eva Tsahuridu
Manager – Accounting Policy

APPENDIX

Question 1—Form of the guidance

CPA Australia agrees with the proposed issue of non-mandatory guidance on applying materiality. The concept of materiality and the mandatory requirement to apply it in preparing financial statements are well established within the accounting standards. Whilst larger entities may have a better understanding of the concept of materiality and its application, smaller entities are likely to benefit from guidance in applying materiality. We therefore suggest inclusion of more practical guidance and examples within the Practice Statement.

Question 2—Illustrative examples

We believe the examples included in the draft Practice Statement are helpful. As stated in our cover letter, it is our view that more practical guidance would also be of value. We suggest inclusion of further examples on the following:

- Disclosures in the notes
- Assessment of qualitative factors in applying materiality
- Excluding immaterial information that may obscure material information.

Question 3—Content of the [draft] Practice Statement

In addition to our above comments, we recommend consideration of the following themes for inclusion in the Practice Statement.

Immaterial information

One of the common remarks at the 2013 IASB Discussion Forum was that immaterial information is often included in financial statements. Anecdotal evidence suggests this could arise for a number of reasons, including pressure from regulators and auditors, following automated systems including checklists and software programs and a fear of getting it wrong by omitting information required by IFRS. Preparers and other stakeholders will benefit from a more comprehensive analysis of the issue of immaterial information, and the inclusion of practical guidance including further examples to address reasons for inclusion of immaterial information.

Paragraphs 77 to 79 include a discussion of misstatements made intentionally by management to mislead users. We suggest the inclusion of a discussion of misstatements made unintentionally (such as the inclusion of immaterial information), which could also mislead users through obscuring relevant information.

Stewardship

Paragraph 27 reproduces paragraph OB4 of the Conceptual Framework, that discusses "...how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources". Whilst some reference to the assessment of stewardship is included in the draft Practice Statement there is insufficient discussion on how to apply materiality to achieve this. We therefore suggest inclusion of more comprehensive guidance and examples to assist with this objective.

Question 4—Timing

It is our view that there is a real need for practical guidance on the application of materiality and we support the issue of the Practice Statement before finalisation of the Principles of Disclosures project.