



**ANALYSIS AND RESPONSES TO VERBAL COMMENT  
RECEIVED ON**

**PROPOSED GUIDELINE ON  
*THE APPLICATION OF MATERIALITY TO FINANCIAL  
STATEMENTS***

**(ED 168 AND ED 169)**



**RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED GUIDELINE ON *THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS* (ED 168 AND ED 169)**

The Accounting Standards Board (Board) approved the exposure of the proposed Guideline on *The Application of Materiality to Financial Statements* (ED 168) and Amendments to the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) (ED 169) in July 2018 for comment. A Notice was published in the Government Gazette on 20 July 2018 (Notice 41781). The comment period closed on 7 December 2018.

These Exposure Drafts were discussed with users, preparers, auditors and consultants by way of workshops, roundtable discussions and other meetings as listed in the table on the next page.

The results from the workshops, roundtable discussions and other meetings are summarised below, and include the Board's responses to the comment received.

**CLASSIFICATION OF VERBAL COMMENT RECEIVED PROPOSED GUIDELINE ON *THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (ED 168 AND ED 169)***

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Municipal Accounting Working Committee – Western Cape Provincial Treasury	√	√		
2.	SAICA webcast	√	√	√	√
3.	SALGA				√
4.	AGSA PC Forum Represented by EC, KZN, FS, LP, National C, National E, NW and WC.			√	
5.	Roundtable discussion with preparers (municipalities and public entities)	√			
6.	Roundtable discussions with users, auditors, consultants and other technical advisors	√	√	√	√
7.	Public Sector Accounting Forum	√	√	√	√
8.	SAICA Public Sector Financial Reporting Project Group				√
9.	North West Provincial Treasury	√	√		
10.	SA Reserve Bank		√		
11.	National Treasury (OAG)		√		



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED GUIDELINE ON  
THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (ED 168 AND ED 169)**

<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>SPECIFIC MATTER FOR COMMENT #1</b>	
	<b>Do you agree with the proposal not to introduce a new requirement about the judgements that management has made about materiality but that the disclosures can be made as part of GRAP 1.132 (see paragraph 3.6 of the proposed Guideline).</b>	
<b>1.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>1.2</b>	<b>SAICA webcast</b>	
	No specific comments were noted.	Noted. No further action required.
<b>1.3</b>	<b>SALGA</b>	
	No specific comments were noted.	Noted. No further action required.
<b>1.4</b>	<b>AGSA PC Forum</b>	
	Participants supported the Board's initiative provided that there is full and transparent disclosure of how the entity determined its materiality considerations.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>1.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	Participants generally supported the disclosures but questioned what should be disclosed and their extent of the information to be disclosed.	Noted. Given the mixed views expressed, the proposed Guideline was amended so that paragraph 3.6 does not require the disclosures but rather encourages preparers to consider providing additional information about materiality if that information has not already been provided as part of the disclosures required by GRAP 1. Example 1 has also been amended to reflect the judgements made in the application section. Paragraph .132 of GRAP 1 remains unchanged. The Board will consider making the disclosure requirement mandatory in future.
<b>1.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
1.6.1	Some participants were of the view that the users' expectation is that the financial statements will only provide material information and that having additional information about materiality considerations is unnecessary.	Noted. Refer to response provided in 1.5.
1.6.2	Other participants agreed with the Board's proposal not to add a new requirement to GRAP 1, and that the materiality considerations may be made as part of the disclosures about management's judgement. In particular, it was noted that the Board should not require the	Noted. Refer to response provided in 1.5.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	disclosures of how management considered materiality but that the decision to provide this "additional information" should be left to management as some of the disclosures on how judgement was applied may be sufficient.	
<b>1.7</b>	<b>Public Sector Accounting Forum</b>	
1.7.1	Participants agreed with the Board's proposal to disclose materiality considerations in the financial statements. However, concerns were raised that the current wording of paragraph .132 would not necessarily lead entities to disclose their materiality considerations. It was suggested that the Board should reconsider the wording in that paragraph so that it captures the disclosure of materiality considerations.	Noted. Refer to response provided in 1.5.
1.7.2	The level of disclosures required by the Board was questioned. In particular, clarity was sought as to whether the disclosures would be required for each line item in the financial statements or whether management's overall considerations will be appropriate.	Noted. The disclosures that the Board envisaged are broader materiality considerations by management and not for each line item presented in the financial statements as illustrated in example 1 of the proposed Guideline.
<b>1.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
1.8.1	Some participants expressed reservations that paragraph .132 does not allow entities to disclose materiality considerations. In their view, if it was already clear that paragraph .132 requires disclosures about materiality then entities would have been providing that information. It was noted that the wording may need to be revisited so that it is not focused on judgements	Noted. Refer to response provided in 1.5.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	only.	
1.8.2	It was noted that the Board should consider not requiring any disclosures but should aim to change preparers' behaviour towards materiality as a first step.	Noted. Refer to response provided in 1.5.
1.8.3	Other participants were in support of the Board's proposal. They noted that it would be useful if management's considerations are disclosed and not the actual thresholds.	Noted. The Board did not want entities to disclose the materiality thresholds but only the overall materiality considerations.
<b>1.9</b>	<b>North West Provincial Treasury</b>	
	Participants were not supportive of the proposal to disclose management's materiality considerations. In their view, materiality is subjective and there is a danger that similar entities will be expected to have the same materiality considerations, notwithstanding that materiality is entity-specific.	Noted. Preparers use materiality to assess what information should be provided in the financial statements and how it should be presented. Auditors are primarily concerned with obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatements. Auditors and preparers consider materiality from different perspectives however the overarching principles will be aligned. Auditors in the public sector also have a duty to act in the public interest – to ensure that auditors act in the public interest their independence needs to be maintained when considering issues such as materiality. They may also place more emphasis on



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		<p>qualitative factors instead of the monetary amount in some cases.</p> <p>The objective of the Guideline is to provide guidance about how materiality should be applied in the preparation of financial statements and not to minimise differences on materiality between preparers and auditors.</p>
<b>1.10</b>	<b>Reserve Bank</b>	
	Participants noted that disclosing materiality considerations would be useful as the users would know how management decided what information should be included or excluded from the financial statements.	Noted. Refer to response provided in 1.5.
<b>1.11</b>	<b>National Treasury - OAG</b>	
	Participants noted that there are advantages and disadvantages to the Board's proposal. It was observed that the disclosures may enhance or improve the quality of financial reporting while on the one hand it may prejudice the users' decision when they know that some information has not been included in the financial statements.	Noted. Refer to response provided in 1.5.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>GENERAL MATTERS FOR COMMENT</b>	
	<b>General</b>	
<b>2.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>2.2</b>	<b>SAICA webcast</b>	
	<p>It was noted that the proposed Guideline clarifies that immaterial errors need not be corrected unless intentionally made to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Some participants were concerned that the application of the proposed Guideline may create a culture of not correcting errors and result in increased audit risk and scope.</p>	<p>Noted. The proposed Guideline makes a distinction between the types of errors that could arise in the preparation of financial statements. In particular, preparers, similar to auditors, need to assess whether an error is material by applying considerations in the proposed Guideline. The proposed Guideline, consistent with GRAP 3, explains that to ensure compliance with the Standards of GRAP, all material errors in the financial statements should be corrected. However, immaterial errors in the financial statements need not be corrected, unless they were made intentionally to achieve a particular presentation of an entity's financial position, financial performance or</p>



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		cash flows. Therefore, entities that choose not to correct immaterial errors would still comply with the Standards of GRAP.
<b>2.3</b>	<b>SALGA</b>	
	Participants welcomed the proposed Guideline.	Noted. No further action required.
<b>2.4</b>	<b>AGSA PC Forum</b>	
	Participants generally supported the Guideline. It was noted that even though the guidance is intended for preparers – it will assist auditors in understanding the preparers' assessments of materiality.	Noted. No further action required.
<b>2.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	No specific comments were noted.	Noted. No further action required.
<b>2.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
2.6.1	It was noted that there may be an expectation from preparers that the proposed Guideline is an audit materiality guideline.	Noted. Refer to response provided in 1.9.



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
2.6.2	Some participants shared that the mSCOA AFS working group has been established to develop specimen financial statements to drive consistency in the disclosures among municipalities. It was noted that while maintaining consistency may be necessary, it may be difficult to apply materiality when there is an expectation that disclosures in the specimen should be provided.	Noted. The use of templates and illustrative disclosures is common practice among preparers. However, the challenge with the use of templates and illustrative disclosures is that entities may not modify these based on their materiality considerations. The Board will monitor developments in this regard.
2.6.3	Participants indicated that generally financial statements are prepared to achieve specific audit outcomes. It was noted that the proposed Guideline will assist in changing preparers' mind-set that the financial statements are meant to provide information to address the information needs of users rather than to achieve audit outcomes.	Noted. No further action required.
<b>2.7</b>	<b>Public Sector Accounting Forum</b>	
	Some participants noted that the publication of the Guideline by the Board may call for the National Treasury to provide practical guidance on issues that cannot be addressed by the Board, and go beyond the requirements in the Standards of GRAP.	Noted. The development of guidance by the Board was an outcome of a decision by the Board and OAG in Discussion Paper 9 on <i>Materiality – Reducing Complexity and Improving Reporting</i> . Even though it is the Board that was responsible for developing the Guideline, it was agreed that the project would be a collaborative effort between the trilateral parties. The feedback from participants will be communicated to the OAG.



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>2.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	It was noted that the guidance will assist in applying materiality especially for those officials that do not have previous experience as auditors.	Noted. No further action required.
<b>2.9</b>	<b>North West Provincial Treasury</b>	
2.9.1	Participants questioned whether the proposed Guideline is consistent with the guidance applied by auditors, and if the process outlined will align preparers' materiality with that of the auditors. It was suggested that if that is not the case, then the Board should find another mechanism to reconcile the differences in the materiality assessments of auditors and preparers.	Noted. Refer to response provided in 2.6.1.  Differences in materiality considerations and decisions between preparers and auditors are expected because of the high degree of judgement and inherent subjectivity involved in materiality assessments. Where there are differences, it is important for preparers to engage with the auditors to understand the reasons for the differences. For example, discussions about what each party has considered to be material and why it is material may be useful.
2.9.2	Other participants questioned the role of the AGSA when preparers assess materiality. Since audit findings are based on audit assumptions and include extrapolations, it would be difficult to address materiality differences between preparers and auditors.	Noted. Refer to response provided in 2.9.1.



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>2.10</b>	<b>Reserve Bank</b>	
2.10.1	Participants expressed their support for the propose Guideline as it will change preparers' mindset in how materiality assessments and decisions are assessed.	Noted. No further action required.
2.10.2	Some participants questioned whether the proposed Guideline provides criteria for entities to apply when assessing whether information is material or immaterial. In their view, establishing criteria or specific threshold will add value to the process and promote public accountability. Participants were concerned if this assessment is left to the entity's discretion without prescribing thresholds, the results will be too diverse as public sector entities vary.	<p>Noted. During the consultation on Discussion Paper 9, the Board noted the lack of guidance on the development of quantitative thresholds. Respondents were asked whether the Board or OAG should develop specific thresholds, and if yes, to suggest bases or margins that could be used. Mixed views were noted from respondents. The Board concluded that there was merit in providing guidance on how to develop thresholds and what bases could be used, as this often relates to the information needs of users.</p> <p>The Board had reservations about providing a range of percentages that should be applied in calculating thresholds. At that time, there was insufficient practice, and any percentages identified by the Board would be largely academic or based on practice in other countries (if such practices existed).</p> <p>In developing the proposals in ED 168, the Board reflected on its earlier considerations and confirmed that the decisions about which thresholds and</p>



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		benchmarks to use should be left to the discretion of management at each entity.



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>Section 1 – Introduction</b>	
<b>3.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	Participants questioned whose materiality considerations are more important between the preparers and the auditors. In particular, participants wanted to know about how to resolve differences in the materiality assessments and decisions between preparers and auditors.	Noted. Refer to comment provided in 2.9.1.
<b>3.2</b>	<b>SAICA webcast</b>	
	No specific comments were noted.	Noted. No further action required.
<b>3.3</b>	<b>SALGA</b>	
3.3.1	<u>Authority of the Guideline</u> Participants questioned which Standards of GRAP the principles of materiality are drawn from.	Noted. The guidance in the proposed Guideline draws on principles and concepts about materiality found in <i>The Conceptual Framework for General Purpose Financial Reporting</i> , and the Standards of GRAP on <i>Presentation of Financial Statements</i> (GRAP 1) and <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (GRAP 3).



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
3.3.2	<p><u>Scope of the Guideline</u></p> <p>It was questioned whether it would be clear to preparers that the proposed Guideline does not deal with audit materiality. In addition, they were concerned that the application of the Guideline may give way to conflict between preparers and auditors when the materiality thresholds and considerations are different. Participants were concerned that the less capacitated municipalities may be left in difficult positions as they may not know how to address such differences.</p>	Noted. Refer to comment provided in 2.9.1.
3.3.4	<p>Participants questioned whether it is more appropriate for the proposed Guideline to be issued jointly by the ASB and National Treasury. A suggestion was also made for a joint communique to be issued by the ASB and National Treasury. Other participants noted while communication is key, the proposed Guideline deals with clarifying principles about materiality and does not address the mechanics or provide specific guidelines on establishing benchmarks. It noted that the National Treasury may have a bigger role to play by developing guidelines based on the principles discussed in the proposed Guideline.</p>	Noted. Refer to comment provided in 2.7.
<b>3.4</b>	<b>AGSA PC Forum</b>	
3.4.1	<p>It was noted that there is a need to consider the impact of the application of the proposed Guideline on audits. Since the proposed Guideline will be part of the GRAP Framework and disclosures will be required of the entity's materiality considerations, the auditor will need to audit the materiality considerations. It may be necessary to get some sort of common ground</p>	Noted. Refer to comment provided in 2.9.1.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	between how preparers and auditors consider and conclude on materiality considerations in the financial statements.	
3.4.2	Participants noted that the proposed Guideline does not mention that if legislative requirements are set for an entity to recognise or disclose certain matters e.g. all irregular expenditure needs to be disclosed, this materiality consideration cannot override the legislative threshold. It might be necessary to consider the requirement for entities to set significance and materiality thresholds in terms of section 54 of the PFMA and this proposed Guideline.	<p>Noted. The proposed Guideline explains that materiality considerations will not necessarily apply to legislative requirements and in some cases all legislative disclosures should be provided regardless of materiality.</p> <p>In addition, the Board considered the Practice Note on Applications under Section 54 of the PFMA i.e. Materiality and Significance Framework issued by the National Treasury. It was noted that the proposed Guideline deals with materiality in the context of the preparation of the financial statements while the National Treasury's Framework is aimed at establishing thresholds for reporting specific transactions to the Executive Authority. Since the two pronouncements serve different purposes, the Board acknowledged that this Guideline would not replace those legislative frameworks issued by the National Treasury and other institutions.</p>
3.4.3	It was questioned whether consistency from one year to the next will be expected on the materiality threshold set if there are no material changes to the auditee.	Noted. Paragraph 3.3 explains that materiality assessments and decisions should be considered throughout the financial reporting cycle and not only when financial statements are prepared at the end of



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		the financial period. A discussion about changes to the materiality thresholds and considerations has been added to paragraph 3.4.
3.4.4	Other participants noted that they share similar concerns raised by other business units that different materiality thresholds and benchmarks are likely to be used. For example, between auditors materiality decisions will vary, and the same can be expected for preparers. However, while entities may have different circumstances, it may be useful if similar entities (for examples municipalities) have a base set which all should have as material, with some anomalies here and there.	Noted. Refer to comment provided in 1.9.
<b>3.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	No specific comments were noted.	Noted. No further action required.
<b>3.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
	No specific comments were noted.	Noted. No further action required.
<b>3.7</b>	<b>Public Sector Accounting Forum</b>	
	No specific comments were noted.	Noted. No further action required.
<b>3.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	



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	No specific comments were noted.	Noted. No further action required.
<b>3.9</b>	<b>North West Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>3.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted. No further action required.
<b>3.11</b>	<b>National Treasury (OAG)</b>	
	Participants questioned whether the proposed Guideline will be non-authoritative. They indicated that the guidance is necessary however it would be too prescriptive for the Board if the proposed Guideline has to be applied when preparing financial statements.	Noted. The Board determines the status of each Guideline when it is approved. Guidelines are generally not authoritative and do not have an effective date. However, the Board agreed that the application of the Guideline should not be made mandatory until the practice of applying materiality judgements has developed. As such, entities may voluntarily apply the Guideline and the Board will determine its effective date at a future date.



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>Section 2 – Definition and Characteristics of Materiality</b>	
<b>4.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	It was noted that materiality is entity-specific. However, some participants questioned whether the AGSA has a framework that it uses when determining materiality for audit purposes, and if the materiality considered by auditors is also entity-specific.	Noted. Materiality is defined in the ASB Conceptual Framework and the Standards of GRAP. The AGSA, and other auditors have an audit methodology which they use to determine materiality in conducting audits.
<b>4.2</b>	<b>SAICA webcast</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.3</b>	<b>SALGA</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.4</b>	<b>AGSA PC Forum</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>4.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.7</b>	<b>Public Sector Accounting Forum</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.9</b>	<b>North West Provincial Treasury</b>	
	Some participants disagreed that taxpayers are the primary users of financial statements. They also questioned why unions are not included as primary users of financial statements.	Noted. The proposed Guideline explains that there are different types of users of financial statements. Primary users of financial statements are broadly those parties who provide resources to the entity, those that receive goods and/or services from an



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<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		entity, and any parties who represent these users. Taxpayers are part of those parties who provide resources to an entity. Unions, while they may use the information in the financial statements to make certain decisions, are regarded as other parties as they can usually access detailed information.
<b>4.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted. No further action required.
<b>4.11</b>	<b>National Treasury (OAG)</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>Section 3 – The Role of Materiality in Financial Statements</b>	
<b>5.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>5.2</b>	<b>SAICA webcast</b>	
	No specific comments were noted.	Noted. No further action required.
<b>5.3</b>	<b>SALGA</b>	
5.3.1	It was questioned whether the Standards of GRAP or the proposed Guideline addresses management's responsibilities in the preparation of financial statements. It was noted that in local government, it has been observed that preparers do not take accountability for the preparation of financial statements but instead use the audit process as a quality-control mechanism.	Noted. An FAQ will be developed that reinforces the overall objective of the proposed Guideline and that it is a tool that will assist with the preparation of financial statements.
5.3.2	Participants questioned whether the proposed Guideline implies that materiality should be determined upfront and not only when the financial statements are prepared, and if it is explicitly clear that the materiality thresholds and considerations may change over the course of the financial period when facts and circumstances change.	Noted. Refer to response provided in 3.4.3.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
5.3.3	Participants noted that diagram 1 seems to focus on the preparation of financial statements and is not consistent with the guidance which explains that materiality should be considered throughout the financial reporting cycle.	Noted. The diagram summarises the materiality process outlined in the proposed Guideline. The last block deals with the preparation of financial statements but the first consideration in that section deals with "developing accounting policies". Accounting policies are usually determined upfront as they determine how transactions are recognised, measured, presented and disclosed.
5.3.4	It was questioned whether preparers would understand which parties are involved in materiality assessments and decisions in the reference "management together with its relevant governance structures". It was added that the audit committee should be included but the municipal council would not be in a position to provide input into these assessments and decisions and this should be clarified.	Noted. The Board's pronouncements are applied by different entities with varying governance structures. As such, the Board could not describe a specific governance structure but agreed that the relevant structure would be determined by the type of entity.
5.3.5	It was noted that if the proposed Guideline is aimed at management, the Board should consider developing guidance to explain the concept of materiality in basic language for public officials such as municipal councillors.	Noted. The suggestion will be considered when the Board considers the results of its Exposure Draft on the <i>Consultation on the Work Programme for 2021 to 2023</i> .



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>5.4</b>	<b>AGSA PC Forum</b>	
	<p><u>Paragraph 3.6</u></p> <p>It is understandable that specific % guidelines cannot be given to determine quantitative materiality and qualitative factors must be taken into consideration. It is therefore possible that auditees may determine a higher materiality than audit materiality. It is however positive that paragraph 3.6 requires disclosure of management's materiality and judgements used – this will ensure transparency and could prevent misuse of the guideline for their own benefit.</p>	<p>Noted. Preparers use materiality to decide when and how information should be reported, while auditors assess use it to assess the impact of misstatements on the financial statements. Therefore, the thresholds developed by preparers may be lower than those determined by auditors.</p>
<b>5.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
5.5.1	<p>Participants agreed that management and the relevant governance structure should make materiality decisions.</p>	<p>Noted. No further action required.</p>
5.5.2	<p>It was noted that the proposed Guideline and the National Treasury's Materiality and Significance Framework complement each other, but it was observed that the materiality and significance thresholds may be too high.</p>	<p>Noted. The National Treasury has indicated that it is reviewing its Materiality and Significance Framework. The observation about the thresholds will be shared with the National Treasury.</p>



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<b>5.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
5.6.1	<p>It was noted that it is positive that the proposed Guideline emphasises who should be involved in making materiality decisions and assessments i.e. management and the relevant governance structures so that preparers are made aware that this is not an area that can be left to consultants. It was shared that in practice, the firms and consultants usually make these decisions and in the end management and the relevant governance structure are not in a position to support those decisions.</p>	Noted. No further action required.
5.6.2	<p><u>Paragraph 3.6</u></p> <p>It was noted that the requirement in paragraph .132 is not completely aligned with the wording used in the proposed Guideline. It was suggested that the wording in paragraph 3.6 should be reconsidered so that the proposed Guideline does not require additional information but permits or encourages entities to provide additional information about its materiality considerations if that information is not already disclosed in the judgements required by paragraph .132 and is necessary for the users to understand the information in the financial statements.</p>	Noted. Refer to response provided in 1.5.
<b>5.7</b>	<b>Public Sector Accounting Forum</b>	
	No specific comments were noted.	Noted. No further action required.
<b>5.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>5.9</b>	<b>North West Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>5.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted. No further action required.
<b>5.11</b>	<b>National Treasury (OAG)</b>	
	No specific comments were noted.	Noted. No further action required.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED GUIDELINE ON  
THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (ED 168 AND ED 169)**

<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>Section 4 – Identifying the Users of Financial Statements and their Information Needs</b>	
<b>6.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	Participants questioned the conclusion in Example 2 that the bank which provides daily banking services is not identified as a user of the entity's financial statements.	Noted. The proposed Guideline explains that the users of the financial statements will need information that enables them to hold entities accountable for the resources entrusted to them and make decisions. Based on the fact pattern in Example 2, the bank is not seen as a user of the financial statements (i.e. resource provider) as the entity only has daily transactional activities with the bank. The assessment would change if an entity takes out a loan with the bank, as it may be seen as a resource provider.
<b>6.2</b>	<b>SAICA webcast</b>	
	It was noted that the proposed Guideline assumes that users of financial statements have a knowledge about government and a willingness to study the information with reasonable diligence. It was questioned whether a municipality can exclude citizens (i.e. service recipients) from its assessment of primary users as most of them would not meet the characteristics of users of financial statements outlined in GRAP 1.	Noted. Preparers should identify specific users of its financial statements. The identification of the users is based on the nature of an entity's operations, including how and from whom it receives resources, and the goods and services it provides and the recipients of those goods and services. While it should be assumed



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		that users have the necessary knowledge to evaluate the financial statements – not all citizens would have this reasonable knowledge. However, the Conceptual Framework recognises that the user groups have representatives such as Parliament, legislatures, councillors, etc. who have the ability to evaluate the financial statements. For this reason, a municipality would treat citizens and their representatives as a primary user. Paragraph 4.5 was amended to clarify the role of representatives.
<b>6.3</b>	<b>SALGA</b>	
	No specific comments were noted.	Noted. No further action required.
<b>6.4</b>	<b>AGSA PC Forum</b>	
	No specific comments were noted.	Noted. No further action required.
<b>6.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	No specific comments were noted.	Noted. No further action required.



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THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (ED 168 AND ED 169)**

<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>6.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
	<p><u>Example 2</u></p> <p>It was noted that the identification of relevant users of financial statement is not an area that should cause differences, as there is a general understanding of who the users of financial statements are. However, it was noted that there will be certain elements/aspects of the financial statements that will influence a specific user or group of users more than others for accountability purposes. In such cases, there may be differences may arise between the specific users identified.</p>	Noted. No further action required.
<b>6.7</b>	<b>Public Sector Accounting Forum</b>	
	No specific comments were noted.	Noted. No further action required.
<b>6.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	No specific comments were noted.	Noted. No further action required.
<b>6.9</b>	<b>North West Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>6.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted. No further action required.
<b>6.11</b>	<b>National Treasury (OAG)</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>Section 5 – Assessing Whether Information is Material</b>	
<b>7.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>7.2</b>	<b>SAICA webcast</b>	
	No specific comments were noted.	Noted. No further action required.
<b>7.3</b>	<b>SALGA</b>	
	It was noted that the sections dealing with the exclusion of immaterial information from the financial statements may need to be repositioned as these may be interpreted to mean that preparers should not record that information at all in the accounting records.	<p>Noted. The proposed Guideline deals with immaterial information in two parts – paragraph 5.29 explains that immaterial information should not be included in the financial statements. However, this paragraph should be read in the context of paragraph 5.30 which emphasises that it is immaterial information in relation to presentation and disclosures.</p> <p>To avoid confusion, paragraph 5.29 was reworded to emphasise that it deals with the presentation and disclosure of immaterial information, and both</p>



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
		paragraphs 5.29 and 5.30 were relocated to be paragraphs 6.11 and 6.12.
<b>7.4</b>	<b>AGSA PC Forum</b>	
7.4.1	<p><u>Paragraph 5.13</u></p> <p>This paragraph indicates that the appropriate benchmark can be determined based on the elements of financial statements for quantitative materiality. This may create difficulties if the chosen benchmark results in a higher materiality than the auditor's materiality amount (i.e. what will be considered material to the auditor may not be material to the auditee).</p>	<p>Noted. The specific benchmarks that preparers and auditors consider may not be the same in all cases. Identifying the relevant benchmarks, bases and percentages requires judgement to be applied by preparers and auditors. As a result, differences of opinion in the selected values will exist.</p> <p>Differences in materiality considerations and decisions between preparers and auditors are expected because of the high degree of judgement and inherent subjectivity involved in materiality assessments. Where there are differences, it is important for preparers to engage with the auditors to understand the reasons for the differences. For example, discussions about what each party has considered to be material and why it is material may be useful.</p>
7.4.2	Paragraph 5.29 may give the impression that immaterial information is excluded and not recorded at all. It should be made clearer this information is not excluded but rather it is how it	Noted. Refer to response provided in 7.3.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	is presented and disclosed that will not be in line with the requirements in the Standards of GRAP.	
<b>7.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	<p><u>Example 4</u></p> <p>It was noted that it is unlikely that preparers would provide additional information to the users if the Standards do not require that information.</p>	Noted. The Standards permit the disclosure of additional information other than that which is required by the Standards if it is necessary for the users to understand certain information and does not obscure the material information. The example has been amended and relocated to the section dealing with selecting information for presentation and disclosure in the financial statements.
<b>7.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
7.6.1	<p><u>Paragraphs 5.11 to 5.19</u></p> <p>Participants supported the Board's decision not to introduce thresholds in this Guideline as the choice of quantitative thresholds is influenced by an entity's facts and circumstances.</p>	Noted. No further action required.
7.6.2	<p><u>Paragraphs 5.20 to 5.25</u></p> <p>It was noted that one of the areas that may result in differences between preparers and auditors is the application and/or evaluation of qualitative factors in relation to disclosures in the</p>	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	financial statements. Participants shared that practically there will be challenges when assessing the interaction of quantitative and qualitative factors, but preparers should ensure that the assessment is centred around whether the disclosures could reasonably be expected to influence the users' decisions.	
7.6.3	<u>Example 4</u> Participants agreed with the example and the principle being illustrated. However, it was noted that the application paragraph should be reworded – replace “notwithstanding” with “even though”.	Noted. Refer to response provided in 7.5.
7.6.4	<u>Example 5</u> Participants agreed with the example and the principle being illustrated.	Noted. No further action required.
7.6.5	<u>Paragraph 29</u> A concern was raised that paragraph 5.29 could be interpreted to mean that immaterial information is “excluded” and not recorded at all in the financial statements. It was suggested that this section could be rephrased and repositioned to emphasise that it deals with the immaterial disclosures.	Noted. Refer to response provided in 7.3.
<b>7.7</b>	<b>Public Sector Accounting Forum</b>	
	A concern was raised that if the Board allows entities to “opt out” of the accounting of immaterial information, the users would be under the impression that all transactions have been	Noted. The principle that Standards of GRAP apply to material transactions is not a new principle. GRAP 3 does allow entities not to follow the specific



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	accounted for in accordance with the Standards of GRAP.	requirements in the Standards of GRAP for immaterial transactions, however these transactions are still recorded or recognised in the financial statements.
<b>7.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	No specific comments were noted.	Noted. No further action required.
<b>7.9</b>	<b>North West Provincial Treasury</b>	
	<u>Example 4</u> It was noted that the principle illustrated in the example that entities can provide more information than is required by the Standards will create conflict with auditors as it concludes that entities can provide additional information that is not required by the Standards.	Noted. Refer to response provided in 7.5.
<b>7.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted. No further action required.
<b>7.11</b>	<b>National Treasury (OAG)</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>Section 6 – Applying Materiality in Preparing the Financial Statements</b>	
<b>8.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	<p>It was suggested that the ASB should issue a FAQ that clarifies the role of materiality in the financial statements especially that the Standards of GRAP do not apply to immaterial transactions. It has been observed in the past that, with immaterial audit findings, the municipality may choose not to correct the misstatements because they are not material. While this may be consistent with the principle that the Standards should not be applied to immaterial transactions, the failure to correct immaterial findings does not give a good reflection on the entity's part.</p>	<p>Noted. Refer to response provided in 2.2.</p>
<b>8.2</b>	<b>SAICA webcast</b>	
	<p>A concern was raised that if the guidance allows entities to formulate policies that are not in accordance with the Standards for immaterial transactions, it will create more complications with the auditors especially since they keep track of such transactions in the overs and unders schedule.</p>	<p>Noted. Refer to response provided in 7.7.</p>



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>8.3</b>	<b>SALGA</b>	
	Participants were unclear about the interaction between materiality and laws and regulations.	Noted. The proposed Guideline discusses the interaction between materiality considerations and laws and regulations. The Guideline explains that materiality considerations will not necessarily apply to legislative requirements, and that in some cases, all legislative disclosures should be provided regardless of materiality.
<b>8.4</b>	<b>AGSA PC Forum</b>	
8.4.1	<p><u>Paragraphs 6.3 and 6.4</u></p> <p>“This means that an entity does not need to recognise, measure, present or disclose information in accordance with the specific requirements outlined in the Standards of GRAP if the effect of applying those requirements is immaterial”.</p> <p>6.4(d) An entity cannot depart from the requirements of the Standards of GRAP for immaterial items, to achieve a particular presentation of an entity’s financial position, financial performance and cash flows.</p> <p>It was noted that in paragraph 6.3 it looks like one can depart but not in in 6.4(d). This was found to be confusing.</p>	Noted. In accordance with GRAP 3, the accounting policies set out in the Standards of GRAP need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the Standards of GRAP to achieve a particular presentation of an entity’s financial position, financial performance or cash flows.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
8.4.2	<p><u>Paragraph 6.35</u></p> <p>It was questioned whether the netting of errors is inappropriate for both material and immaterial items.</p>	Noted. The netting of all errors is inappropriate as the errors may affect different line items.
8.4.3	<p><u>Example 9</u></p> <p>In the example it is said that the legislation requires disclosure of <u>all</u> incidents of unauthorised, irregular, fruitless and wasteful expenditure. However, in some cases such as the MFMA section 125(2)(d)(i), legislation requires disclosures of "<u>material</u> losses and any <u>material</u> irregular or fruitless and wasteful expenditures, including in the case of a municipality, any <u>material</u> unauthorised expenditure, that occurred during the financial year". It was questioned whether the "material" referred to in the legislation would be determined using the guidance in ED168 or would this disclosure be deemed material due to its nature i.e. ED 168 par 5.2.</p>	Noted. The proposed Guideline discusses the interaction between materiality considerations and laws and regulations. The Guideline explains that materiality considerations will not necessarily apply to legislative requirements and in some cases all legislative disclosures should be provided regardless of materiality. This example has been amended to consider respondents' concerns about the MFMA requirements.
<b>8.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>8.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
8.6.1	<p><u>Example 9</u></p> <p>It was noted that in the absence of a materiality threshold in legislation, then materiality as defined in the accounting framework would be applied.</p> <p>It was suggested that the example should be amended to reflect the requirements in the PFMA with reference to the disclosure of material losses rather than all expenditures so that it does not create confusion in practice.</p>	Noted. Refer to response provided in 8.4.3.
8.6.2	<p><u>Paragraph 6.25</u></p> <p>Participants agreed with the guidance provided on the provision of prior period information not previously provided but noted that it may be useful if preparers provided some context to the users as to why prior year information is provided in the current year, so that the inclusion of the information does not create the impression that it was omitted to achieve a particular presentation outcome.</p>	Noted. GRAP 1 further requires entities to make specific disclosures when the presentation or classification of items has been amended in the financial statements.
<b>8.7</b>	<b>Public Sector Accounting Forum</b>	
	No specific comments were noted.	Noted. No further action required.



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<b>COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i></b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>8.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	Participants noted that it is good that the guidance emphasises the principle that Standards of GRAP do not apply to immaterial transactions.	Noted. No further action required.
<b>8.9</b>	<b>North West Provincial Treasury</b>	
	No specific comments were noted.	Noted. No further action required.
<b>8.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted. No further action required.
<b>8.11</b>	<b>National Treasury (OAG)</b>	
	It was noted that the OAG will consider developing guidance on the selection of thresholds and benchmarks once the Board has finalised the proposed Guideline.	Noted. No further action required.



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THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (ED 168 AND ED 169)**

<b>COMMENTS ON ED 169 PROPOSED AMENDMENTS TO GRAP 1</b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>GENERAL MATTERS FOR COMMENT</b>	
<b>9.1</b>	<b>Municipal Accounting Working Committee – Western Cape Provincial Treasury</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.2</b>	<b>SAICA webcast</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.3</b>	<b>SALGA</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.4</b>	<b>AGSA PC Forum</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.5</b>	<b>Roundtable discussion with preparers (municipalities and public entities)</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.



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<b>COMMENTS ON ED 169 PROPOSED AMENDMENTS TO GRAP 1</b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
<b>9.6</b>	<b>Roundtable with users, auditors, consultants and other technical advisors</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.7</b>	<b>Public Sector Accounting Forum</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.8</b>	<b>SAICA Public Sector Financial Reporting Project Group</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.9</b>	<b>North West Provincial Treasury</b>	
	Participants supported the amendments to GRAP 1.	Noted no further action required.
<b>9.10</b>	<b>Reserve Bank</b>	
	No specific comments were noted.	Noted no further action required.
<b>9.11</b>	<b>National Treasury (OAG)</b>	
	No specific comments were noted.	Noted no further action required.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED GUIDELINE ON  
*THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS (ED 168 AND ED 169)***

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