



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

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

(ED 168 AND ED 169)



RESPONSES TO THE WRITTEN 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.

The Board received four comment letters, including comment from the Department of Treasury of the Free State Province that issued a questionnaire to which the entities listed in the table on the next page responded. The results of the formal comment process are summarised below, and include the Board's responses to the comment received.

In addition to the comment letters received, the proposed Exposure Drafts were also discussed with preparers, auditors and consultants by way of workshops, roundtable discussions and other meetings. The summary of comment received during these discussions is included in a separate analysis.

CLASSIFICATION OF WRITTEN COMMENT RECEIVED ON THE 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.	Submission by the Free State Department of Treasury, including inputs from the following entities: <ul style="list-style-type: none"> • Department of Provincial Treasury • Department of Provincial Treasury: MFMA • Department of Police, Roads and Transport • Department of Public Works and Infrastructure • Department of Agriculture and Rural Development • Department of Education 	√ √ √ √	√ √		
2.	South African Revenue Service (SARS)	√			
3.	Western Cape Government (WCG)		√		



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i>		
No.	Comments	Board's response
	SPECIFIC MATTER FOR COMMENT #1	
	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).	
1.1	Free State Department of Treasury	
1.1.1	<p>Your request to comment on the above-mentioned exposure drafts. The request for comment, a questionnaire as well as the relevant documentation were sent to all Free State departments, Free State Legislature, public – and trading entities as well as municipalities.</p> <p>Responses were received from the following departments only – Provincial Treasury, Police, Roads and Transport, Public Works and Infrastructure, Agriculture and Rural Development, and Education.</p> <p>The exposure draft is in general supported and no further matters for comment were provided by the departments, except for the Departments of Agriculture and Rural Development, Public Works and Infrastructure, Police, Roads and Transport and Education.</p>	Noted. No further action required.
1.1.2	<p><i>Department of Agriculture and Rural Development</i></p> <p>Yes. The entity must provide the relevant disclosures about the judgements applied in its assessment of materiality. These disclosures will enable the users of the financial statements to understand the approach followed by management in making the decisions about materiality.</p>	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



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS		
No.	Comments	Board's response
		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.
1.1.3	<p><i>Department of Public Works and Infrastructure</i></p> <p>Yes we agree with the board not to introduce new requirements on material judgements as such can be made as part of the disclosures in GRAP 1.132. As long as there is guidance and collective understanding of the heterogeneous groups (preparers, auditors and users) of what constitutes a materiality judgement. What is material? What is immaterial? What and what not to be included.</p>	Noted. Refer to response provided in 1.1.2.
1.1.4	<p><i>Department of Police, Roads and Transport</i></p> <p>No. Even though GRAP 1.132 makes reference to the requirements with respect to the judgement made by management which have a significant effect on the amounts disclosed, there is a notion of fair presentation to the users. Now with so many diverse organisations (some with very complex structures) reporting according to the GRAP standards, it should be considered that minimum disclosure requirements will be needed regarding the assessment of materiality specifically. An element of comparability also needs to be considered in the judgement of management with regard to materiality. Judgement provided in many other instances might be organisation specific, however the consideration of materiality will be applicable to all organisations that prepare their financial statements according to GRAP.</p> <p>Therefore to ensure transparency and comparability, guidelines should be provided with regard</p>	<p>Noted. Refer to response provided in 1.1.2.</p> <p>In addition, materiality considerations will vary from entity to entity. Therefore, any disclosures made by one entity will be specific to that entity's facts and circumstances, and will not necessarily be consistent with those made by another entity with similar operations.</p>



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i>		
No.	Comments	Board's response
	to the disclosure required for the judgement applied in determining materiality for disclosure purposes.	
1.1.5	<i>Education</i> We agree because the nature of departments' operations varies and to make the disclosures as part of the mentioned GRAP will be sufficient.	Noted. Refer to response provided in 1.1.2.
1.2	SARS	
	Comment letter only relates to ED 169.	Noted. No further action required.
1.3	Western Cape Government	
	An entities accounting policy on materiality should be disclosed as part of the AFS – assumptions should be clearly documented since this will be the standard against which they will be audited and the judgment of the compiler of AFS will be tested.	Noted. Refer to response provided in 1.1.2.



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i>		
No.	Comments	Board's response
	GENERAL MATTERS FOR COMMENT	
2.1	Free State Provincial Treasury	
	<p><i>Department of Police, Roads and Transport</i></p> <p>There could also be a different materiality approach or methodology applied by external auditors and this could lead to different materiality factors qualitatively and quantitatively.</p>	<p>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 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</p>



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i>		
No.	Comments	Board's response
		preparation of financial statements and not to minimise differences on materiality between preparers and auditors.
2.2	SARS	
	Comment letter only relates to ED 169.	Noted. No further action required.
2.3	Western Cape Government	
2.3.1	<p>With reference to paragraph 5.5 read with paragraph 5.6:</p> <p><i>“5.5 In assessing whether an item is material, entities usually develop specific qualitative considerations and thresholds for specific items. These qualitative considerations and thresholds are used to make decisions about what information to report, how to present it as well as assess the effects of misstatements, omissions or errors.”</i></p> <p><i>“5.6 Qualitative considerations are determined by identifying certain criteria or characteristics that will be used to decide when an item is material based on its nature. Quantitative thresholds are determined by applying a specific margin (e.g. a percentage) to a specific basis (e.g. a benchmark). Such thresholds will be used to decide when an item is material based on its size.”</i></p> <p>The qualitative (nature) definition in the Guideline is not in line with the definition used by AGSA. We suggest that this Guideline should follow AGSA's definition, for the sake of</p>	Noted. Refer to comment provided in 2.1.



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i>		
No.	Comments	Board's response
	consistency.	
2.3.2	Additionally, consider providing clearer guidance with the setting of thresholds for the quantitative (size) material matters, maybe even provide the thresholds should be used (differentiated approach for Local Government vs. Provincial Government) against the specific selected benchmarks (refer to attachment for an example).	<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 benchmarks to use should be left to the discretion of management at each entity.</p>
2.3.3	ASB must ensure all effected entities are properly trained on the standard.	Noted. The Board's mandate is to set Standards of



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

COMMENTS ON ED 168 PROPOSED GUIDELINE ON <i>THE APPLICATION OF MATERIALITY TO FINANCIAL STATEMENTS</i>		
No.	Comments	Board's response
		GRAP and related pronouncements. The mandate does not include training on the Board's pronouncements, as this is the responsibility of the National Treasury, this suggestion will be shared with them.



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

COMMENTS ON ED 169 PROPOSED AMENDMENTS TO GRAP 1		
No.	Comments	Board's response
GENERAL MATTERS FOR COMMENT		
3.1 Free State Provincial Treasury		
3.1.1	<p>Your request to comment on the above-mentioned exposure drafts. The request for comment, a questionnaire as well as the relevant documentation were sent to all Free State departments, Free State Legislature, public – and trading entities as well as municipalities.</p> <p>Responses were received from the following departments only – Provincial Treasury, Provincial Treasury: MFMA, Police, Roads and Transport, Public Works and Infrastructure, Agriculture and Rural Development, and Education.</p> <p>The Exposure Draft is in general supported and no further matters for comment were provided by the departments, except for the Department of Provincial Treasury: MFMA and Police, Roads and Transport.</p>	Noted. No further action required.
3.1.2	<p><i>Department of Provincial Treasury: MFMA</i></p> <p>Yes [Support the amendments]</p> <p>Paragraph 79 and 96: It sounds as if the Standard of GRAP dictates that all entities should have items listed in the standard. The Board should consider to rephrase the sentence or replace the word “shall”. Example is to say that “all items applicable to the list below shall be included”. The reason being for example not all entities have biological assets.</p>	Noted. Paragraph 96 should be read in the context of paragraph 79 that explains that all the requirements in the Standards of GRAP are subject to materiality considerations. Therefore, entities to which the list of disclosure items is either not applicable or immaterial would not be required to provide that information in the financial statement as it is relevant to their users.



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

COMMENTS ON ED 169 PROPOSED AMENDMENTS TO GRAP 1		
No.	Comments	Board's response
3.1.3	<p><i>Department of Provincial Treasury: MFMA</i></p> <p>Paragraph 80A: The paragraph is welcomed as its aim is to enhance comparability between entities.</p>	Noted. No further action required.
3.1.4	<p><i>Department of Police, Roads and Transport</i></p> <p>Yes [Support the amendments]</p> <p>It will be very beneficial to measure disclosure based on materiality and this will assist to determine what is the key operational activities and the impact they have on the set of financial statements.</p>	Noted. No further action required.
3.1.5	<p><i>Department of Police, Roads and Transport</i></p> <p>Is there any guidelines that should be considered if the materiality of an entity for the preparation of the financial statements differ from the materiality of the external auditors? This could lead to a discrepancy between financial statements disclosed and what is required by the auditors for audit purposes. As the Materiality of external auditors are unknown, this could be problematic.</p>	Noted. Refer to comment provided in 2.1.
3.1.6	<p><i>Department of Police, Roads and Transport</i></p> <p>It will also be interesting to see how this implementation would apply to the Modified Cash Standards that are more rules based and do not allow for much judgement in terms of materiality and disclosure. There is currently a difference within the Modified Cash environment between the standards and reporting template from National Treasury from a disclosure point</p>	Noted. The OAG will consider the impact of the proposed Guideline on the MCS environment once it has been approved by the Board.



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

COMMENTS ON ED 169 PROPOSED AMENDMENTS TO GRAP 1		
No.	Comments	Board's response
	of view. Once the consideration of materiality and significant disclosure is added to the equation, it would require a new and more diverse reporting template for Departments.	
3.1.6	<p><i>Department of Public Works and Infrastructure</i></p> <p>Yes [Support the amendments]</p> <p>Having read the proposed summary of amendments it's probable that the changes will significantly assist the preparers, auditors and users to eliminate the obscurity and intricacies on Presentation of Financial Statements and how to apply materiality disclosures.</p>	Noted. No further action required.
3.2	SARS	
	<p>SARS has reviewed ED 169 - Proposed amendments to the Standard of GRAP on <i>Presentation of Financial Statements</i>.</p> <p>We have no specific matter for comment. We agree that the amendments will clarify materiality considerations when preparing Financial Statements.</p>	Noted. No further action required.
3.3	Western Cape Government	
	Comment letter only relates to ED 168.	Noted. No further action required.