FACT SHEET – APPLYING MATERIALITY

	THE BASICS OF APPLYING MATERIALITY
What is materiality?	Information in the financial statements should be relevant to users' needs, i.e. to hold entities accountable and to make decisions. Materiality ensures that the most relevant information is provided in the financial statements. Materiality is defined as: Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.
Whose responsibility is it to assess materiality?	It is management's responsibility to assess materiality in preparing the financial statements. Materiality should be discussed and agreed at various levels in an organisation, including senior and executive managers, oversight structures such as a Finance or Audit Committee, and the Accounting Officer, Board, Council, Governing Body or equivalent.
When is materiality considered?	Materiality – both qualitative and quantitative - is considered throughout the reporting period and at the reporting date.
What factors are considered when assessing materiality?	Materiality is assessed for items individually as well as collectively, based on the nature of an item, the size of an item, or both. Materiality is assessed based on information available at the date of assessment. This includes information about the past, the present, as well as what the potential effect could be on future reporting periods. For example, if an entity's plans indicate that there will be an expansion of a particular activity next year, in making decisions about materiality this year, that fact is considered.
How is materiality assessed in a group?	In an economic entity, controlled entities may publish their own financial statements, while controlling entities will prepare consolidated financial statements and may publish separate financial statements. Controlling entities will assess materiality in their consolidated as well as their separate financial statements. Controlled entities determine materiality in the context of their own financial statements. They will also need to consider the controlling entity's materiality in developing their quantitative thresholds and qualitative criteria.
At what level is materiality assessed?	Materiality is a matter of judgement. Materiality could be assessed for a financial statement component, a line item, and/or disclosure in the notes. As a result, entities could have several materiality thresholds and/or qualitative criteria.
Is materiality in GRAP the same as materiality in legislation?	Maybe. The concept of materiality may be the same as that described in Standards of GRAP, but it may be different. The relevant legislation will need to be analysed to understand if materiality is defined and interpreted in the same way.
What is the difference between the "materiality framework" prepared in accordance with legislation and	Legislation may require certain entities to prepare a "materiality framework". This framework governs the reporting of transactions, events or other circumstances to an entity's executive authority and/or other regulator. This

This Fact Sheet explains the Secretariat's views on the accounting and other issues related to the application of materiality. This Fact Sheet should be reviewed with IGRAP 21 on The Effect of Past Decisions on Materiality and the Guideline on the Application of Materiality to Financial Statements. This Fact Sheet has not been reviewed, approved or otherwise acted on by the ASB.

materiality in the Standards of GRAP?	materiality framework does not deal with materiality in the context of preparing financial statements.
Is materiality the same for auditors and preparers?	The definition of materiality is the same of the auditors and preparers. However, the way in which materiality is used is different for auditors and preparers. Auditors use materiality to design and assess the appropriateness of their audit procedures in order to assess whether financial statements are materially misstated.
Documentation is key…	Documentation of how materiality was assessed Management should document comprehensively how they have assessed materiality and the conclusions reached. These documents should ideally be reviewed and agreed by management, oversight structures and those charged with governance. Documentation of items to which alternative accounting treatments were applied In the past, entities kept detailed records of items to which alternative accounting treatments were applied in order to assess if the effect of those decisions became material over time. While detailed information considering the effect of these decisions over time is not needed, entities should still keep the necessary documents related to the acquisition, sale, etc. of an item in order to maintain effective internal control.
	APPLYING MATERIALITY TO THE DEVELOPMENT OF ACCOUNTING POLICIES
What does it mean to not apply Standards of GRAP to immaterial items?	The recognition, measurement, presentation and disclosure principles in the Standards of GRAP need not be applied when the effect of applying them is immaterial. This means that entities can develop alternative accounting principles for immaterial items, transactions or events. This does not mean that they exclude these from the financial statements, their accounting treatment just differs.
What is an accounting policy?	An accounting policy outlines the principles in the Standards of GRAP – applied to material items – in preparing the financial statements. Significant accounting policies are disclosed in the financial statements.
What is an "alternative accounting treatment"?	An alternative accounting treatment outlines the principles used to account for immaterial items. The principles used to develop alternative accounting treatments should ideally not be inconsistent with the Conceptual Framework. Alternative accounting treatments are not disclosed in the financial statements because they deal with immaterial items.
Can applying alternative accounting treatments today affect future reporting periods?	Materiality is assessed based on facts and circumstances during a reporting period or at reporting date. Hence, they are period specific. As alternative accounting treatments are applied to items considered immaterial in a specific period, they will have no effect on future periods unless an error was made in assessing or applying materiality.

ACCOUNTING STANDARDS BOARD

FACT SHEET – APPLYING MATERIALITY

Materiality assessments are similar to estimates…	Assessing materiality is similar to making judgements about estimates of useful lives of assets, discount rates, values etc. Estimates are based on facts and circumstances at reporting dates. Just as the effect of changes in estimates is only considered prospectively, so is the effect of changes in materiality.
Errors in the application of materiality	The scenarios below indicate a potential error in the application of materiality: (a) Immaterial items are omitted from the financial statements. Applying materiality does not mean that items are not accounted for at all in the financial statements. Any items omitted from the financial statements – even if immaterial – result in an error. (b) An inappropriate alternative accounting treatment is applied because of a failure to use, or misuse of, reliable information that was available or could reasonably have been expected to be used at reporting date. Applying materiality means using all available information in determining materiality and developing an alternative accounting treatment. If an entity does not use all available information (including information that could reasonably have been used), or misuses information, then an error could arise. (c) An alternative accounting treatment is applied to immaterial items to achieve a particular presentation in the financial statements. Although alternative accounting treatments are only applied to immaterial items, if an alternative treatment is applied to achieve a specific result, then this would give rise to an error. For example, an entity may decide to develop an alternative accounting treatment for an immaterial account balance. The account balance could be made up of material debits and credits with the net effect being immaterial. If the net effect is to achieve a specific presentation or result, then this would result in an error. (d) An incorrect assessment of materiality is made resulting in material transactions being accounted for as immaterial transactions. This could be similar to (b). If materiality is incorrectly assessed, either as a result of not using all available information or for other reasons, this could result in an error. In each of the scenarios above, an entity applies the requirements in GRAP 3 on errors to determine the appropriate accounting treatment. The treatment in GRAP 3 would depend on whether the error is material.
What are the transitional arrangements for the initial application of the Interpretation?	The Interpretation is applied prospectively from the effective date. Entities need not assess past decisions about materiality – this includes assessing whether errors were made in the past relating to materiality. Entities can however adjust for errors related to materiality. Entities need to ensure that any corrections are not based on the application of hindsight. Hindsight is the application of facts and circumstances that arose after the assessment of materiality was made.

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