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# Applying Materiality Judgments: Research findings from New Zealand and Malaysia

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# Background

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- In April 2022, the IASB initiated a call to partner with NSSs and academics, to obtain research evidence about the effects of recent changes and additions to its literature applicable to making materiality judgements
  - Evidence from the research would enable the IASB to assess the effects its literature has on investors, companies, auditors and regulators
- The MASB and AASB, together with Malaysian academics responded to the IASB's call

# Why the Research?

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**Aimed at providing the IASB with sufficient information to assess the impacts of these documents on users of financial statements**

## IFRS Accounting Standards

- [Definition of Material \(Amendments to IAS 1 and IAS 8\)](#), Oct 2018

## Supporting materials

- [IFRS Practice Statement 2 \*Making Materiality Judgements\*](#), Sept 2017 (“IFRS PS 2”)
- [Better Communication in Financial Reporting – \*Making disclosures more meaningful\*](#), Oct 2017

# What is being researched?

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- **The research investigates:**
  - the extent of application of materiality in the preparation of financial statements
  - to what extent do the 2018 Amendments to IAS 1 and IAS 8, and IFRS PS 2 contribute to the improved understanding and application of materiality among preparers and auditors of financial statements
  - whether further efforts are needed to enhance the understanding and application of materiality

# Who were interviewed?

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## 15 preparers

13 listed entities  
(2 non-listed)

59% CFOs

67% >20-30 years'  
experience

## 20 auditors

10 major firms  
(10 medium firms)

85% audit  
partners

60% >20-30 years'  
experience

Regulators  
were also  
interviewed  
but not  
considered  
in the  
research  
due to the  
lack of data  
saturation

Interviews were held between Oct 2022 to May 2023

# Research Methodology

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- Data collected underwent a thematic analysis process where it analyses recurring themes and patterns within the data
- In a qualitative interview,
  - the absence of a concept being mentioned in interviews does not imply its insignificance, and
  - the frequent mention of a concept by various participants does not necessarily indicate its greater importance
- Research findings do not aim to validate or generalise how materiality judgements is made, but rather provide insights into the perspectives of preparers and auditors on this matter

# 3 Themes, 12 Research questions

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## **Theme 1: Materiality idea in practice**

To establish if there exists a common understanding of “materiality” among preparers and auditors

## **Theme 2: Effects of the IFRS PS 2 on key groups**

To gather evidence about the usefulness of IFRS PS 2


## **Theme 3: Impact of IFRS PS 2 in practice & processes**

To gather evidence about the application of IFRS PS 2 in the process of making materiality judgements for both the preparation of financial statements and in auditing them


# 1. Materiality in practice

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Generally, there was a common understanding of the materiality concept that aligns with IFRS literature, particularly IFRS PS 2



materiality consideration is judgemental and context-dependent; involves the considerations of many factors such as entity-specific circumstances, the business model, its operations, industry, etc – all these with an interplay of complying with regulators' expectations



determining materiality is not a mechanical or formulaic process. Auditors rely on judgement, experience, and industry knowledge to assess materiality, determining any misstatements, errors, or omissions in financial information that may impact investors' decision-making



## 2. Impact of IFRS PS 2 on materiality judgement

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Most found IFRS PS 2 provides clear guidance, serving as a tool in the process and helps with providing *better communication* in financial reporting

- Provides clarity regarding the principle-based approach to assessing materiality
- Improved understandability among both preparers and auditors in applying the materiality concept
- Facilitates practitioners' work and decision-making process such that it helps with resource allocation by concentrating on material issues

## 2. Impact of IFRS PS 2 on materiality judgement

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Most found IFRS PS 2 provides clarity regarding the principle-based approach to assessing materiality, serves as a tool in the process and helps with providing *better communication* in financial reporting



PS2 guidance is adequate. Striking the right balance is crucial; standards shouldn't be overly prescriptive, allowing practitioners to exercise their judgement. These guidelines provide a helpful framework for everyone to make informed judgement about materiality

Preparers asserted that materiality aids them in identifying and prioritising items that require heightened attention during the preparation of financial reports.



# 3. How IFRS PS 2 help with the process

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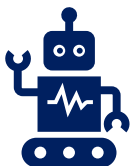
Overall, preparers and auditors found guidance in IFRS PS 2 has helped in the process of preparation of financial statements and in auditing those



The importance of understanding an entity's business profile and identifying the primary users of financial statements and the users' information needs when applying the concept of materiality – which aligns with step 1 of IFRS PS 2



The use of internal checklist with consideration of qualitative and quantitative data is common in both preparers and auditors.



Commonly, auditors use automated tools for quantitative assessment & to identify trends or anomalies in a wide range of data

### 3. How IFRS PS 2 help with the process

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Overall, preparers and auditors found guidance in IFRS PS 2 has helped in the process of preparation of and auditing financial statements, focusing on both quantitative and qualitative factors

Applying materiality helps to focus on identifying entity-specific information and primary users of financial statements and their information needs – aligns to step 1 of IFRS PS 2

some investors prioritise non-financial measures such as green initiatives and other ESG-related elements which would affect the process of making materiality judgement

The use of data analytical tools plays a pivotal role in facilitating the materiality judgment process – it helps with quantitative materiality assessment and to identify trends and anomalies within an entity's data

# Other key takeaways

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Most felt that the IASB had successfully provided the guidance needed for materiality judgements, resulting in more sufficient and relevant disclosures

- The concept of materiality addressed in PS2 serves as a valuable tool in focusing on what truly matters in financial statements
- Comprehension of applying the materiality concept is improved with the guidance provided in PS2

# Other key takeaways

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- Applying materiality judgements vis-à-vis compliance with accounting standards
  - some preparers may be uncomfortable using judgement, especially in complex transactions reflected in financial statements, leading to boilerplate disclosures
- Regulators' expectations
  - Some information deemed immaterial by an entity was disclosed in the general-purpose financial statements to ensure compliance with regulators' expectations

# Concluding remarks

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IASB should continue monitoring practices to determine whether enhancements of guidance are necessary



Maintaining cross-functional collaboration within an entity is crucial for making consistent materiality judgements across different departments (such as the financial reporting and sustainability reporting teams); improving the overall coherence and connectivity of information in the reports



Education and training are important for preparers and auditors to make sound materiality judgements

# Reference

- A copy of the Research Report is attached as **Appendix 1**
- Link to MASB website:  
<https://www.masb.org.my/pages.php?id=591>
- Link to AASB website:  
<https://aasb.gov.au/research-resources/research-centre/research-reports/>





**THANK YOU**