



QUEENSLAND TREASURY

2020-21 FINANCIAL REPORTING REQUIREMENTS FOR QUEENSLAND GOVERNMENT AGENCIES

FRR 2B Materiality

INTRODUCTION

Policy items, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

Application Guidance, indicated by plain text under the "Application Guidance" sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

Illustrative Examples demonstrate the application of the FRR policy items to hypothetical scenarios.

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2B.1 AASB PRACTICE STATEMENT ON MATERIALITY

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements (FPPF)*
- *Conceptual Framework (CF)*
- *SAC 1 Definition of the Reporting Entity*
- *AASB Practice Statement 2: Making Materiality Judgements*
- *AASB 101 Presentation of Financial Statements*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*
- *Auditing Standard ASA 320 Materiality in Planning and Performing an Audit*

POLICY

- **The overarching concepts of the Framework, AASB Practice Statement 2: *Making Materiality Judgements* and the Application Guidance below must be taken into account in the preparation of agency annual financial statements.**

APPLICATION GUIDANCE

Application of the AASB Practice Statement: Making Materiality Judgements

This FRR is aimed at assisting agencies apply the materiality framework established in Practice Statement 2. Agencies should note the Practice Statement is not an Australian Accounting Standard. Rather, the application requirements of the Practice Statement mean entities are required to consider its application when making materiality judgements that are required under applicable Accounting Standards.

In the absence of other authoritative publications, Treasury expects Queensland Government Agencies will follow the guidance contained in Practice Statement 2 when making materiality judgements, unless specific guidance is otherwise contained within this or another Financial Reporting Requirement (FRR) issued by Queensland Treasury.

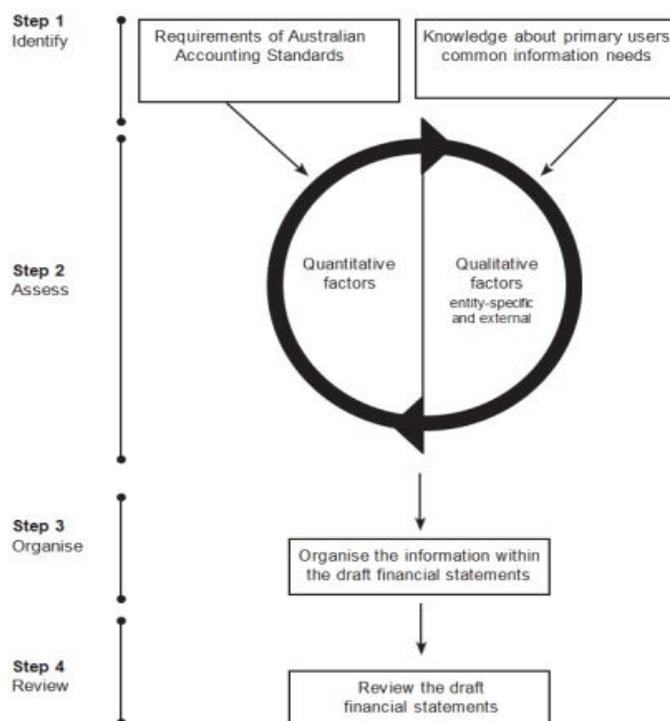
Circumstances where divergence from the materiality framework and/or guidance outlined in Practice Statement 2 would be considered rare. Where an agency considers a departure from the materiality framework is necessary and/or why the practice statement guidance is not relevant to their circumstances, they should consult with QT and QAO to discuss the issue, including an outline of the conceptual reasons supporting their position.

Making Materiality Judgements – Overview of the Materiality Process

The AASB Practice Statement on materiality contains a four-step illustrative process as part of the guidance that describes how an entity could assess whether information is material for the purposes of recognition, measurement, presentation and disclosure. Although this is considered guidance within the Practice Statement, and paragraph 30 notes this is one possible way to make materiality judgements, it does incorporate all of the factors an entity should consider when making materiality judgements and the requirements an entity must apply to comply with Accounting Standards.

Paragraph 34 – AASB Practice Statement 2: Making Materiality Judgements

Diagram—the four-step materiality process



In the absence of other materially process models that address all of these judgements and requirements, Queensland Government agencies are expected to apply the four-step process of AASB Practice Statement 2 and follow any specific guidance otherwise contained within this or another Financial Reporting Requirement (FRR) issued by Queensland Treasury.

Materiality in the Context of Financial Reporting

Unless there is an explicit statement that disallows it, materiality is an overarching principle that applies to the preparation of financial statements and the application of Australian Accounting Standards, Australian Interpretations and accounting/reporting policies (including the Financial Reporting Requirements and Non-Current Asset Policies).

It is not possible to specify a blanket or uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. Materiality is an entity-specific assessment and is both quantitative and qualitative in nature.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." (AASB 101.7)

FPPF Paragraph QC11 further adds: *"... materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report."*

For example, the exclusion of immaterial information would be expected to improve the understandability and readability of financial statements by helping users focus on the more important aspects of the financial report and key accounting transactions, balances and disclosures.

By contrast, over-simplifying or excluding relevant details from an inherently complex transaction may result in the financial information necessary for the users to understand the transaction being incomplete and therefore potentially misleading.

Identifying Primary Financial Statement Users: Not-for-Profit Agencies

Not-for-profit agencies should be aware of a broader range of primary users and the fact their resource allocation/decision making process may differ compared to a for-profit entity. Paragraph Aus13.1 of the Practice Statement and paragraph AusOB2.1 of the Framework outline that among the users of financial information about a not-for-profit reporting entity are *"existing and potential resource providers (such as investors, lenders and other creditors,*

donors and taxpayers), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament)."

Further, paragraph Aus18.1 of the Practice Statement and paragraph AusOB.3.1 of the Framework identifies that primary users of not-for-profit agencies are generally not concerned with obtaining a financial return on an investment in the agency. Rather, they are concerned with the ability of the agency to achieve its objectives (either financial or non-financial). Whilst this may include the agency's prospects for future net cash inflows, users will be interested in the capability of the agency's resources (e.g. the service potential of assets) to provide goods and services in the future to achieve its intended organisational and governmental objectives (i.e. service delivery).

Treasury Comments on Quantitative and Qualitative Considerations

Materiality is a matter of professional judgement on quantitative and/or qualitative grounds and demands a complete understanding of the specific facts and broader context/circumstances.

Quantitative grounds are applicable to transactions and balances (and adjustments thereto) that are expressed in dollar terms. Other (e.g. narrative) information disclosed in notes that accompany the financial statements is generally more appropriately assessed based on its nature. However, where an assessment based on either of those bases is inconclusive, it is usually necessary to make a judgement from both perspectives overall.

Quantitative aspects (Amount)

Paragraphs Aus45.1 to Aus45.3 of the Practice Statement identify that not-for-profit entities are primarily concerned with the achievement of objectives (i.e. service delivery) other than the generation of profit. For this reason, it may not be appropriate to assess materiality by reference to profitability and not-for-profit entities should therefore consider materiality in absolute and relative terms.

In absolute terms, consideration is given by not-for-profit entities to the financial report as a whole. Consequently, not-for-profit entities will typically assess materiality using a base other than profitability. Common examples of alternative bases include total revenue, total expenses, total assets and net assets.

In relative terms, items are compared by not-for-profit entities to any directly related items (e.g. interest expense to relevant borrowings, depreciation/amortisation to related assets).

Such a comparison may suggest that interest or depreciation expense is material if its amount is much lower (or higher) than expected, having regard to the relevant asset/liability balance and applicable interest/depreciation rates.

In determining whether a transaction/balance/adjustment is material on quantitative grounds, the following comparisons (whichever apply) provide a reasonable basis:

- for amounts that would be reported in the Statement of Comprehensive Income, compare to the more appropriate of the following amounts for the relevant reporting period:
 - the line item in which the amount would be included in on the face of the statement;
 - total income or total expenses (as applicable); or
 - operating result.

- for amounts that would be reported in the Statement of Financial Position/Balance Sheet, compare to the more appropriate of the following amounts for the relevant reporting period:
 - the line item in which the amount would be included in on the face of the statement; or
 - total assets, total liabilities or total equity (as applicable).

- for amounts that would be reported in the Statement of Cash Flows, compare to the more appropriate of the following amounts for the relevant reporting period:
 - the line item in which the amount would be included in on the face of the statement; or
 - total inflows or total outflows (as applicable) for the relevant cash flow category (i.e. operating/investing/financing); or
 - net cash provided by/used in the relevant cash flow category (i.e. operating/investing/financing).

- for amounts that would be reported only in the Statement of Changes in Equity, compare to the total of the line item in which the amount would be included in for the relevant reporting period. For amounts also reported in the Statement of Comprehensive Income, it will be necessary to refer to the relevant comparator within that statement.

Agencies should be alert to items/amounts/comparators for the current reporting period that are considered to be distorted by one or more transactions/events (e.g. due to their

amounts being unusually high or low, or amounts being recognised in an irregular pattern across financial years). In such cases, it may be necessary to adjust the materiality calculation for the distortion to obtain a more reasonable and appropriate result.

Qualitative Aspects (Nature)

Qualitative factors are factors that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements irrespective of their amount. In making materiality judgements, an agency considers qualitative factors that are both entity-specific and external to the agency.

The mere presence of a qualitative factor will not always make the information material, but will, in most instances, increase the primary users' interest in that information. As a result, the presence of a qualitative factor lowers the thresholds for the quantitative assessment of the particular materiality judgement being made. The more significant the qualitative factors, the lower the quantitative threshold will be. In some circumstances, qualitative factors may be so significant that the quantitative threshold for a particular type of transaction is reduced to zero.

In other cases, the item may be information in a narrative/non-numerical form and does not impact on reported financial statement figures – in these situations materiality may be best assessed based on the nature of the transaction/balance/information.

Not-for-profit public sector agencies are primarily concerned with the achievement of organisational and governmental objectives (such as service delivery) rather than the generation of profit. Therefore, where the nature of a particular transaction, balance or narrative disclosure is important for the discharge of accountability or transparency, the nature of the item is likely to be material.

Consideration of the "nature" usually relates to whether the information would be of public interest such as:

- transactions between an agency and other entities/people who have a fiduciary responsibility in relation to that agency;
- restrictions on powers and operations of an agency that significantly affect the risks and uncertainties associated with the item concerned;
- substantial changes in the functions of an agency, affecting its risks and opportunities;
- potential breaches of legislative or contractual obligations;
- significant post-balance date events; and
- special payments, or losses of assets.

The FRRs set out a number of individual items that must be disclosed in the financial statements on this basis – e.g. key management personnel compensation disclosure at the position level, losses and special payments. There may be other items unique to certain agencies that warrant disclosure due to their nature, so agencies should use their judgement as to the public interest in the separate disclosure of such items.

Interaction of Quantitative and Qualitative Factors

As illustrated in the AASB Practice Statement and process diagram, qualitative and quantitative factors are interactive and a quantitative assessment alone is not always sufficient to conclude that an item of information is not material. Therefore, when quantitative judgments of materiality indicate a transaction, balance, or adjustment is not material to the financial statement as a whole, an assessment of qualitative factors would also be made to ensure the appropriateness of that conclusion. For example:

- The omission of a transaction, balance or other misstatement may result in a deviation, such as the reversal of a trend, turning a surplus into a loss, or creating or eliminating the margin of solvency in a Statement of Financial Position. In these circumstances, the adjustment may be considered material to the financial statements.
- Where an agency's financial position has deteriorated, but the agency has revalued upwards its Property, Plant and Equipment, information regarding the revaluation of those assets would likely be material. On that basis, all revaluation accounting and disclosure requirements in AASB 116 *Property, Plant and Equipment* would apply, even though the revaluation amount may not be material on quantitative grounds.

2B.2 MATERIALITY STRATEGY

REFERENCES

- *AASB Practice Statement 2: Making Materiality Judgements*

APPLICATION GUIDANCE

Making materiality judgements - determining and documenting materiality

For the purposes of financial statement preparation, agencies will need to determine and document (early in the financial year) a materiality strategy to be used by the agency.

In setting the materiality strategy, agencies should discuss with external audit and understand the materiality levels established by the auditors and how they will be applied in the context of the audit. However, agencies should not simply adopt those materiality levels used by audit. It would normally be expected that materiality set by the agency would be lower than those set by the auditors.

This materiality strategy should be endorsed by the Audit Committee (or equivalent management body that oversees the financial statement process) and would be expected to include, at a minimum, the following assessments:

- The materiality levels for the agency as a whole and each individual financial statement;
- The materiality to be applied to a department's administered transactions/balances, noting the reporting requirements for such transactions under the FRRs. Consequently:
 - Where administered transactions are disclosed as separate statements, a separate materiality threshold would be determined for the controlled and administered financial statements;
 - Where administered transactions are disclosed as a note within the controlled financial statements, agency judgement will be required as to whether a separate materiality threshold is required for those administered disclosures.
- Where applicable, materiality considerations for the valuation of property, plant and equipment where such balances are disproportionately larger than revenues and expenses reported in the operating statement and any revaluation adjustments will only impact the balance sheet of the agency. (N.B. where revaluation amounts are reported in profit or loss / operating result, it will be necessary to apply the thresholds determined for the Statement of Comprehensive Income and/or overall financial statement materiality against those transactions).
- Materiality thresholds for disclosures that are qualitatively material such as:
 - *Compliance with laws/regulations (e.g. losses/special payments under the FPMS or other legislative impacts on the agency);*
 - *Related party transactions and Key Management Personnel remuneration;*
 - *Other sensitive transactions/balances or disclosures.*

- Other thresholds/benchmark judgements (as appropriate). For example, agencies may identify individual assets within an asset class that need not be revalued because they are immaterial to the class of asset. Agencies should document the basis for that decision and its interaction with other materiality judgements.

In addition to the materiality assessments, an effective materiality strategy identifies:

- the anticipated primary users of the agency's financial statements;
- the expected information needs of those users, according to the agency's activities and the relevance of transactions/balances to those anticipated users (SAC 1 and the Framework may provide some guidance in this respect);
- tolerable (quantitative) limits the entity will use to record unadjusted items in a register for facilitate an assessment of the cumulative impact of these individual immateriality judgements, which should be tabled by management when the audit committee approves the financial statements;
- approaches for dealing with comparators for the current reporting period that are considered to be distorted by one or more transactions/events (e.g. due to their amounts being unusually high or low, or amounts being recognised in an irregular pattern across financial years). In assessing materiality under those circumstances, agencies should consider the appropriateness of either excluding unusual transactions/balances from the relevant current year comparator, or calculating a new comparator figure based on an average over a number of past reporting periods;
- the areas in the financial statements that are likely to require a greater level of disclosure and determining which areas will require the greatest (or possibly the least) effort in preparing workpapers/documentation to support the financial statements; and
- the way the above factors will direct materiality judgements by the agency in respect of each statement (in light of the guidance in this FRR.)

Correct use of materiality for financial statement preparation

The materiality strategy and thresholds set by the agency for use in preparation of the financial statements should not be misapplied or used out of context. For instance, they should not be applied to day-to-day accounting entries (such as recording transactions and processing journals) to avoid recognising transactions below a certain threshold.

Making materiality judgements - Agency monitoring of materiality

Materiality for the financial report as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that have affected the agency. For example, a machinery-of-government change, a restructure or a decision to dispose of a major part of the agency's business or cease particular service delivery outcomes. Such changes will often cause actual financial results to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial report as a whole.

In addition, during the course of the year, as separate judgements are made to not process adjustments, etc. on the basis of this strategy (i.e. on the grounds of immateriality), agencies should keep a register of the nature of the instance, the reason for the decision, and the quantitative effect on the financial statements. The intention of this register is to monitor the "cumulative" effect of past individual materiality decisions on the financial statements.

Where the cumulative effect of those decisions starts becoming material, agencies are expected to revisit those past decisions, and process adjustments to the extent that there will not be a material impact on the financial statements.

"Cumulative" materiality judgements

Materiality on quantitative grounds is primarily assessed for an individual transaction/balance or adjustment. However, agencies need to also assess the cumulative impact of multiple transactions/balances/adjustments that are individually assessed as being immaterial. Where individually immaterial transactions/balances/adjustments would have a material impact when aggregated, the agency needs to instead treat those transactions/balances/adjustments as being material.

For example, an immaterial error is made in accounting for a transaction. A similar immaterial error is subsequently repeated on other transactions for the remainder of the financial year, before it is identified and a procedure change implemented to prevent the error's recurrence. The cumulative amount of the errors is assessed as being material and, without any adjustment, the financial statements will include a material misstatement. Ideally, each error should be corrected. However, to prevent material misstatement, the agency may only need to correct a sufficient number of those errors for the cumulative effect to be immaterial and to no longer impact the fair presentation of the financial statements.

Materiality of a controlled entity

In those less common situations where materiality of a controlled entity needs to be assessed to determine whether it requires inclusion in the consolidated figures, comparisons should be made between the figures of the parent entity (or existing economic entity where consolidated financial statements are already prepared) and those of the controlled entity regarding total assets, total liabilities, total income and total expenses. Refer to Example 3 in the Appendix for an illustration of how this would apply.

In making this comparison, a controlled entity may be determined as being individually immaterial. However, where an agency has multiple individually immaterial controlled entities, an additional comparison (using the same comparators) is required to ensure those entities collectively are not material in aggregate.

Where individually immaterial controlled entities are material in aggregate, the agency must determine which of those entities should be consolidated. This requires the exercise of professional judgement using the materiality comparators in respect of the figures for each controlled entity. Unless another method provides a more reliable basis, the agency should consolidate the entities in order of their relative materiality until the (remaining) unconsolidated controlled entities are no longer material in aggregate.

Where a parent entity has unconsolidated entities (on the grounds of immateriality), the above assessment will need to be repeated towards the end of each financial year to ensure that the unconsolidated controlled entities continue to be immaterial in aggregate.

EXAMPLE 1 Asset Reclassification

Background

A library collection (with a carrying amount of \$600,000) comprising many items of cultural and heritage significance in digital form is presently accounted for as a library reference collection within Property, Plant and Equipment (PPE). When finalising its financial statements at year end, the agency identifies that this library collection has been converted to digital format, and pursuant to NCAP 7 Accounting for Library Collections should be classified as an intangible digital library collection. Total assets are \$100 million, which currently includes \$60 million PPE and \$7 million Intangible Assets.

Question

Is the required reclassification of the digital library collection material?

Materiality Threshold

The collection relates to the Statement of Financial Position, and two line items are affected i.e. PPE and Intangible Assets. The agency has set a quantitative materiality threshold of \$1 million based on 1% of total assets (\$100 million).

Materiality Judgement

The adjustment results in a 1% decrease in PP&E and an 8.6% increase in intangible assets. However, percentage movements alone at the line item level are not the sole consideration in making this materiality judgement. In this scenario, as the reclassification adjustment (\$600,000) is less than the materiality threshold of \$1 million, it is considered to be immaterial on quantitative grounds. (This example assumes no other adjustments).

A qualitative assessment would also be made - assuming there are no qualitative factors relative to the digital library collection and the line items PP&E and Intangible Assets are not considered more qualitatively material than other balance sheet items overall, the initial conclusion of immaterial would remain.

Alternative Judgement Scenario B – presence of qualitative factors requiring agency judgement

Assume the same fact pattern as example 1 except the agency expects the size and value of this library collection to grow considerably in the future as there is a concerted program in place to expand this digital collection. The collection is currently 60% of their materiality threshold, and it will become more material over time. Accordingly, in these circumstances, the agency applies professional judgement and decides to reclassify the digital library collection into intangible assets in the current period.

Alternative Judgement Scenario C – lower materiality threshold for intangibles arising from qualitative factors

Assume the same fact pattern as example 1 except the agency is responsible for implementing the government's initiative of digitising reference collections. One of the agency's performance indicators is the conversion of its existing physical collections into electronic format and these indicators will be outlined in the agency's annual report. In addition, the agency is being funded specifically to complete this project for which the work completed to date represents stage 1 of a 5 stage project.

Accordingly, in these circumstances, the digital library collection is considered more qualitatively material (i.e. material by its nature) and is therefore assigned a much lower quantitative materiality threshold of \$5,000 equal to the recognition threshold for heritage and cultural library collections. On this basis, the reclassification adjustment is considered material and thus the digital library collection must be reclassified into intangible assets.

EXAMPLE 2 Cumulative Materiality

Background

A recently created agency revalued all their land and buildings as part of their financial reporting requirements. While finalising the amounts for their financial statements, it becomes apparent that while 3 of the buildings were revalued, the revaluations were not entered in their financial systems and as such have not been included in financial statements. The financial statements indicate that the buildings have been revalued to \$397.8m. The details of the 3 buildings valuations not updated in the financial system are:

	Book Value	Fair Value	Decrement
Building 1	10.9m	10.5m	0.4m
Building 2	12.5m	12.2m	0.3m
Building 3	8.6m	8.1m	0.5m

The agency has no asset revaluation reserve balance within equity and the materiality level has been set at \$1m, being 1% of revenue totalling \$100m.

Question

Do the amounts need to be corrected on materiality grounds?

Materiality Judgement

Materiality in this situation is most appropriately assessed on quantitative grounds from a misstatement perspective.

PPE should be recorded as having a fair value of \$396.6m, rather than the currently recorded \$397.8. While the error of \$1.2m out of \$396.6m appears small (only 0.3%), consideration needs to be taken on the other amounts reported in the financial statements.

The reported amounts will impact on expenses as the revaluation decrement in this instance will be adjusted through expenditure in the operating statement. As the cumulative error of \$1.2m in the reported expense is above the materiality threshold for the financial statement as a whole, it will result in a material misstatement if left uncorrected – therefore, the cumulative adjustment would be made.

Alternative Judgement Scenario – Asset Revaluation Reserve and Specific Balance Sheet Threshold

Assume the same fact pattern as example 2 except the agency had an asset revaluation reserve balance of \$70 million and a separate materiality threshold for uncorrected valuation adjustments within PPE that only impact the balance sheet (i.e. no impact on the operating result) of \$7 million.

Accordingly, in these circumstances, the adjustment of \$1.2 million would only impact the balance of PPE and the asset revaluation reserve. As the amount is below the separate materiality threshold set for uncorrected PPE valuation adjustments that impact the balance sheet only, the adjustment would be considered immaterial on quantitative grounds (assuming no other adjustments or qualitative factors rendered the adjustment material).

EXAMPLE 3 Materiality of Controlled Entity

Background

A department takes control of a non-government organisation (ABC Pty Ltd) that has been experiencing severe financial difficulties for the last couple of years. ABC provides much needed community services in a remote region, and there is alignment between ABC's services and the department's objectives. The department's control is planned to be temporary, until a new operator can be found to replace ABC Pty Ltd and take over its activities, however due to the remote location and particular circumstances, a new operator is not expected to be secured in the short-term.

The department's materiality threshold of \$1.8m has been determined at 2% of revenue. At the date the department takes control of ABC Pty Ltd, selected key financial data are as follows:

Key Data	ABC Pty Ltd (\$)	Department (\$)	
		(excluding ABC Pty Ltd)	%
Total Assets	1,200,000	250,000,000	0.4%
Total Liabilities	1,500,000	150,000,000	1.0%
Net Assets	(300,000)	100,000,000	0.3%
Total Income	4,000,000	90,000,000	4.4%
Total Expenses	7,000,000	70,000,000	10.0%
Operating Result	(3,000,000)	20,000,000	15.0%

Question

Is ABC Pty Ltd material enough to warrant consolidation with the department, or could it simply be disclosed within the notes to the financial statements?

Materiality Judgement

Assessments of 'control' must be undertaken by the department each year in accordance with AASB 10 *Consolidated Financial Statements*. FRR 2G "*Consolidated Financial Statements and Controlled Entities*" also contain relevant requirements and guidance for departments and statutory bodies.

As consolidation would directly impact on the figures in all financial statements, materiality should primarily be assessed from a misstatement perspective on quantitative grounds with reference to the relevant financial statement comparators. Where materiality varies according to the comparator, professional judgement is required in making the most appropriate conclusion.

From a quantitative perspective, the revenue, expense and the operating result exceed the assessed materiality threshold for the operating statement (which is the adopted financial statement on which materiality for the agency has been assessed). This is despite balances of total assets and total liabilities of the subsidiary being immaterial relative to the total assets and total liabilities of the department.

If the subsidiary were not consolidated, the amounts reported would be materially misstated. As such, the subsidiary is material and consolidated financial statements would be prepared for the economic entity.

Alternative Judgement Scenario – quantitatively immaterial but presence of qualitative factors requiring agency judgement.

Assume the same fact pattern as example 3 but say the income, expenses and operating result for the year were below the materiality threshold such that the initial assessment was the subsidiary was quantitatively immaterial. In such cases, an assessment of qualitative factors would also be considered.

In this example, qualitative considerations might include the fact a new operator is not expected to be secured in the short-term given the remote location, the circumstances surrounding the Government taking control (including the price paid relative to net assets and any relationship the department and its decision makers have with the previous owner or the parties receiving the company's services) and the expected future trading results forecast material operating losses or debts the Government will be liable to meet. The more significant these qualitative factors, the more likely the subsidiary will be considered material for consolidation.

EXAMPLE 4 Materiality of an event after the reporting period

Background

Between balance date and the certification of an agency's financial statements, Government approval was obtained to sell an underperforming business unit of an agency. Marketing of the business unit to locate a buyer is yet to commence. The carrying amount of the net assets attributed to this business unit is \$500,000, and the income earned in the last financial year was \$150,000. The department's net assets have a carrying amount of \$50 million and income for the last year was \$12 million. The underperforming business unit delivers services to the community that have not been met by private sector providers, so there is substantial community interest in its ongoing viability.

Question

Is the materiality about the planned sale of the business sufficient for this to be "caught" by AASB 110 *Events after the Reporting Period*?

Materiality Judgement

As this event relates to a condition that did not exist at balance date, it would be a non-adjusting event under AASB 110 (no adjustments should be made to the reported figures in the financial statements). The materiality of the business unit to the department can be gauged on quantitative grounds from a disclosure perspective.

Quantitative materiality for the statement of financial position is 5% of net assets – $5\% \times \$50,000,000 = \$2,500,000$. $\$500,000$ is considered quantitatively immaterial.

Quantitative materiality for the statement of comprehensive income is 2% of total income – $2\% \times \$12,000,000 = \$240,000$. $\$150,000$ is considered quantitatively immaterial.

However, the decision about whether to disclose the expected future sale of the business unit is most likely best made based on the nature of the information (**i.e. a qualitative judgement**). The substantial community interest in the business unit would provide sufficient grounds to include a note disclosure about future sale plans (refer to paragraph 21 of AASB 110). **Therefore, this event would be considered material due to its nature.**

EXAMPLE 5 Materiality of a compliance breach

Background

Two middle management officers from a small agency flew interstate for an industry conference. In addition to reasonable travel incidentals (e.g. food and drink, etc.), those officers charged other expenses to their corporate cards to the value of \$4,500 and \$5,000 respectively. During subsequent investigations of corporate card expenses across the agency for fringe benefits tax purposes, it was discovered that those extra costs were deliberately mis-described on the supporting documentation and were actually purchases of personal gifts and charges for a day trip to local wineries after the conference ended – expressly against the agency's corporate card usage policy. The officers concerned entered into an undertaking to pay back these personal costs. As at year end, the amounts had been invoiced to the officers, but yet to be recovered. Total receivables for the agency are \$500,000.

Question

Are these outstanding debts from the officers' material, such that they should be separately identified in the Receivables note breakdown in the financial statements?

Materiality Judgement

The outstanding debts may be immaterial from a purely quantitative disclosure perspective ($\$9,500/\$500,000 = 1.9\%$). However, as these debts relate to the recovery of personal expenses, separate identification in the Receivables note may be appropriate for the purposes of public interest and transparency (i.e. based on the nature of the transactions).