United Nations

Corporate Guidance

for

International Public Sector Accounting Standards

Materiality Framework

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1 INTRODUCTION

The intention of this paper is to provide information on the **concept of materiality** and how it is generally applied as part of preparing IPSAS compliant financial statements.

One of the most important considerations about materiality is that its foundation or basis lies within the Auditing practice. Most guidance on materiality is provided in Auditing Standards rather than Accounting Standards such as the IPSAS.

The starting point of any consideration of materiality in terms of the financial statements is therefore from an external point of view. What is important to the financial statements is by definition important from the viewpoint of users or readers of the financial statements.

The use of materiality as part of the preparation of financial statements has developed over time and is based on the principle that the benefit of providing information should exceed the cost of providing it. IPSAS does not state that the recognition or measurement of a transaction depends on its materiality. Generally all transactions should be recognized in line with IPSAS requirements.

The key considerations of this framework are:

- The determination of the concept of materiality; and
- The application of materiality by the United Nations Secretariat (United Nations) for financial reporting purposes.

Please note that the information included in this paper can be applied to all reporting entities of the United Nations.

2 DEFINITIONS

IPSAS 1: Presentation of financial statements paragraph 7 defines the term 'material' as follows - 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 and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

3 THE CONCEPT OF MATERIALITY

3.1 Materiality and audit

As stated above, the concept of materiality has its basis in the Auditing environment. In simple terms, the aim of any audit is to assess whether the financial statements of an organization are free from material misstatement and omission and present a fair summary of the organization's operations. The initial context of materiality is therefore whether something is significant or material in the eyes of an external user of an organization's financial statements.

This approach is also reflected in the definition of materiality included in IPSAS 1 as stated above in section 2, Definitions.

International Standard on Auditing (ISA) 320: Materiality in planning and performing an audit states that although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Professional judgement is used at all times in setting and applying materiality guidelines.

3.2 Aspects of materiality

In assessing materiality of an item, a clear focus should therefore be on whether the item's misstatement or omission could influence the users of the financial statements.

In addition to the focus on the users of financial statements, the definition mentions various other aspects that should be considered when assessing materiality:

- Size of the amount or transaction – also known as quantitative aspects.
- Nature of the amount or transaction – also known as qualitative aspects.
- Surrounding circumstances.

Generally, these aspects are considered to be of equal importance and an amount or transaction can be considered as material, if any one of the above applies.

3.2.1 USERS OF FINANCIAL STATEMENTS

In its definition of materiality, IPSAS specifically mentions the **effect** an item can have on the **users** of the financial statements. When considering what effect information can have on users, it is therefore important to understand, who the users of the financial statements are in the first place and what they are looking for in terms of information.

The IPSASB ***Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*** (published by the IPSASB in October 2014) has identified the primary users of general purpose financial reports of public entities as being resource providers and service recipients.

For practical purposes, the approach taken is that the users of the financial statements are considered as a group, instead of addressing every individual user's information needs and preferences. In addition, users are assumed to have a reasonable knowledge of the United Nations' operations and International Public Sector Accounting Standards and are willing to study the information provided.

Amongst others, the users of the United Nations' financial statements generally include Member States, donors, implementation partners, employees, creditors, banks and financial institutions. The interest and focus of each of these groups varies greatly and the decision of what should be included in the financial statements and what shouldn't is difficult and could easily result in the incorporation of information that might address one group's requests, but that is not relevant to the financial statements as a whole.

As part of the preparation of its financial statements, the United Nations should therefore assess, who its key users are and whether the readers have some common objectives.

Example – Interests of users

One of the key interests or focus areas of the United Nations' member states and donors would be how the funding provided to the United Nations has been used. This is therefore an area of importance for those users. On the other hand, that information might not be so relevant for most of the United Nations' creditors as they are more interested in knowing whether or not the United Nations will be in a position to pay them. There is therefore a conflict of interest regarding the information to be provided.

As mentioned above, the United Nations should assess in such situations who its key users are and whether a common ground can be found.

With regards to the information provided, a solution would be to provide information on contributions received and how they were used, but also whether all the cash that was received as part of the projects was used or whether amounts are available to repay any debt on time.

3.2.2 Quantitative aspects

Another key aspect of materiality is the size of the item, or its **quantity**. Generally, the assumption is that the larger an amount, the more material it is.

In practical terms, quantitative aspects of materiality are expressed by determining an amount ("materiality"), which acts as a cut-off point or threshold for when items become material and will consequently impact the users of financial statements if they are omitted or misstated.

3.2.3 Qualitative aspects

Throughout the standards, the IPSASB highlights the fact that materiality also has a qualitative aspect. This refers to the notion that a misstatement or omission can be significant to the users of the financial statements due to its nature rather than its size.

While the notion of a quantitative threshold is popular due to its relative simplicity, qualitative factors tend to be of similar importance in the public sector due to the increased public interest and higher level of accountability than in the private sector. The concept of an item's materiality due to its nature should therefore not be underestimated.

Examples of qualitative factors that could cause an item to be material are as follows:

Political Sensitivity: Considering the sensitivity of their nature, any amounts or transactions that might have significant political implications may be considered material.

Public Concern: Similar to amounts and transactions of political sensitivity, areas with significant social effects and of public concern may also be regarded as material.

Experience / benchmark: Transactions or amounts may also be considered as material, if based on experience or by comparison to similar organizations, they tend to raise a lot of attention.

Type of Fund: The type of fund may also be a critical factor for judging materiality. For instance, a significant amount of the funds received by the United Nations are designated as "restricted" and may only be spent for specific purposes. The scrutiny of the users of financial statements over such amounts is therefore most likely higher and such amounts may consequently be considered as material.

3.2.4 Surrounding circumstances

An important consideration highlighted in the definition of materiality is the **surrounding circumstances** of the item. An item should therefore never be considered in isolation, but always within certain context.

When putting items in context, it is important to ensure that the context is meaningful and appropriate. IPSAS therefore suggests that when assessing materiality of an item it should be in comparison to similar items or in other words, for example, materiality of an expense should be established by comparison to total expenses.

Taking this approach further, the materiality of certain disclosures should be established by comparing them to the most appropriate or related amount actually recognized in the financial statements.

Once an item has been put into the right circumstances, the assessment of its significance or materiality often comes down to its size and how big it is in comparison to the overall balance.

3.3 Summary

As previously stated, the four aspects of materiality discussed in 3.2.1 to 3.2.4 are generally considered to be of equal importance; an amount or transaction may be considered as material, if any of the aspects apply. However, for practical purposes, this framework recommends commencing a materiality assessment by focusing on quantitative aspects and then if required, analyzing the remaining aspects (qualitative aspects and the surrounding circumstances), as a further assessment.

4 APPLICATION OF MATERIALITY

When looking at the references to materiality throughout the IPSASs, it becomes clear that materiality is applied in three ways:

- Materiality at the overall financial statements level: This materiality is used at the end of the year as part of the closing process to assure that the aggregate financial statements are free from material misstatements or omissions.
- Materiality and surrounding circumstances: In addition to overall materiality at the financial statements level, items should also be considered in terms of their surrounding circumstances. While an item may not be material at the overall level it may be material to its surrounding circumstances.
- Materiality and individual transactions: As the overall financial statement materiality level is not very practical and cannot be used on a day-to-day basis when recording transactions, specific materiality levels are often set for purposes of recording, measuring, presenting and disclosing individual transactions.

4.1 Materiality at the overall financial statements level

4.1.1 WHAT IS OVERALL MATERIALITY?

As mentioned in the definition of materiality, an item is material, if its omission or misstatement could, individually or collectively, influence the decision or assessment of users on the basis of the financial statements.

The concept of materiality is therefore directly linked to the impact an item has on the reporting entities' financial statements and overall materiality for a reporting entity should therefore be set at a level relevant to the financial statements. At the year-end, the overall materiality set will serve as a guideline when preparing the overall financial statements: The aggregated information provided in the financial statements should be free from any material omission or misstatement that could influence the users of the financial statements.

4.1.2 DETERMINING OVERALL MATERIALITY

Determining a percentage to be applied as a chosen materiality threshold involves the exercise of professional judgment and should be revisited by management on at least an annual basis.

4.1.2.1 ISA 320: Materiality in planning and performance audit

The IPSASB in its Study 14, Transition to Accrual Basis of Accounting, refers to ISA 320, which in turn suggests a threshold of 1 % of total revenue or expenses may be appropriate overall materiality level for audits of not-for-profit entities. ISA 320 also emphasizes that higher or lower percentages may be deemed appropriate depending on the circumstances, therefore management should bear in mind that they should consider a range of percentages. ISA 320 stresses the importance of professional judgment versus the use of a 'mechanical calculation'.

ISA 320 paragraph A9 states that where a public sector entity has custody of public assets, assets may be a more appropriate benchmark. Therefore, for reporting entities whose operations are grounded in the custody of public assets, such as the Escrow Account, assets may be a more appropriate benchmark.

4.1.2.2 Base percentage in determining overall materiality

To assist management in determining overall materiality and maintain consistency with ISA 320, the United Nations has elected to use a base overall materiality percentage of 1 %.

Consistent with ISA 320, management's professional judgment may determine that based on the circumstances, a higher or lower percentage may be more appropriate to use in determining overall materiality.

4.1.2.3 Steps to establish an overall material threshold

The following steps would be undertaken to establish an overall materiality threshold for each year.

It is important that the process by which the overall materiality threshold is determined is fully documented to evidence that the steps were applied appropriately and demonstrate management's professional judgment in this process.

1) Obtain prior period information on total expenses[1]: As current information is usually not available when setting initial materiality levels, prior period audited financial statements information is considered to be an appropriate starting point.
2) Calculate 1 % (or other percentage if professional judgment suggests it is appropriate to vary this base percentage) of total prior year expenses.
3) Round number calculated under 2) to an appropriate number, such as three significant figures.
4) As initial materiality was based on prior-period financial information, in the financial statements preparation process, management should consider whether or not this initial materiality should be adjusted based on actual current-period totals (typically draft current-period financial statements).

Example – calculating materiality for Volume I for 2014

Following the above steps, materiality for Volume I would be established as follows:

1) 2013 total expenses (on an UNSAS basis for illustrative purposes only): $10,631,058,000.
2) 1 % of total 2013 expenses: 0.01 * $10,631,058,000 = $106,310,580.

[1] United Nations' management has decided to use total expenses and revenue as a starting point for its materiality assessments unless another base is determined to be more appropriate, e.g. total assets for the Escrow Account.

3) For practical purposes, the number calculated under 2) would be rounded to $106,000,000.
4) In the process of preparing the 2014 financial statements, draft total IPSAS expenses are estimated as $5,963,119,000. Therefore in this example, initial overall materiality must be re-assessed as 1 % of estimated total 2014 IPSAS expenses: $59,631,190 rounded to $59,600,000.

The amount of $59,600,000 will be used as materiality for purposes of the aggregated financial statements of Volume I.

This decision making process should be documented and subject to review and endorsement.

4.2 Materiality and surrounding circumstances

As there is no definitive guidance on how to apply the concept of materiality and surrounding circumstances in practice, to provide accounting practitioners with some uniform guidance on making materiality estimates, some national jurisdictions[2] approached the question by establishing quantitative thresholds to determine when something is considered material in comparison to its surrounding circumstances:

- An amount which in total is equal to or greater than 10 % of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; and
- An amount which in total is equal to or less than 5 % of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

Or in other words, anything (once aggregated) less than 5 % of the appropriate base amount can generally be considered immaterial, while anything (once aggregated) more than 10 % of the base amount is deemed to be material unless there is evidence or convincing argument to the contrary[3].

When using this approach, it is however important to establish what the base amount is: the base amount is the total amount for all transactions that are of similar nature as the amount or transaction under review. With regards to the recognition of individual transactions, this would most likely be the sum of all transactions recorded in the same general ledger account.

Example – base amount

A finance officer of the United Nations is noticing that an invoice for external consulting services was not properly reflected in the financial records. The invoice amount is $5,000,000.

While the amount is significantly less than the overall materiality limit set for the financial statements as a whole, it is also important to assess whether the transaction is material with regards to its circumstances.

[2] Such as the Australian Accounting Standards Board's AASB 1031: *Materiality*.

[3] A convincing argument to the contrary may be that the line item is immaterial in its own right. For example, a reporting entity may have a $40,000 misstatement identified in intangible assets which has a base amount (total intangible assets) of $392,000 – the misstatement is therefore 10.2 % of the base amount.
When the base amount is assessed against overall materiality (see **section 4.1**), if Total Revenue and Total Assets are both $225,000,000, the base amount is 0.17 % of these totals which is therefore considered immaterial in its own right.

In the same year as when the invoice was received, the total expense for external consultants was $80,000,000 and this amount should be used as the base amount in this example to assess whether the one invoice is material.

Where quantitative thresholds are used to guide accounting practitioners' decisions, the question arises, whether any amounts falling between 5 % and 10 % are material or not. Such decisions require professional judgment, experience and consideration of qualitative aspects such as political sensitivity, public concern or type of fund and can only be made by considering all relevant aspects.

Immatertial < 5 % < Professional judgement < 10 % Material

Please note that generally the expectation would be that when looking at the recognition or measurement of an item, the threshold would be closer to 5 %, while for presentation or disclosure purposes, the threshold would be closer to the 10 %.

Example – consideration of qualitative aspects

In the example, compared to the base amount of $80,000,000 (total expense for external consultants), the $5,000,000 misstatement reflects 6.25 % and therefore lies in the band where judgment is required.

As discussed above, examples of things to consider include political sensitivity, public concern and type of fund. While there is no significant focus on external consultant costs from a political sensitivity or public concern point of view in this example, the United Nations has been focusing on its expenses and what its available funds are used on and consequently, there is significant interest in providing a complete view of all expenses.

Based on this circumstance, the invoice of $5,000,000 is considered to be material.

To ensure that there is sufficient evidence to demonstrate that management's decision on this matter is in accordance with IPSAS and that management have exercised their professional judgment appropriately, the supporting documentation for this item should record management's evaluation of this matter. An example Materiality Decision Document is provided in **Annex I**.

To assist management in determining materiality in relation to an item's surrounding circumstances, the United Nations adopts the quantitative thresholds discussed above but emphasizes that professional judgment is the prevailing factor in determining whether or not an item is material in relation to the surrounding circumstances.

4.3 Materiality concept with regards to treatment of individual transactions

There is no specific indication in IPSAS that the concept of materiality should be applied to the treatment of individual transactions. Generally all transactions of an organization should be recognized and accounted for in line with the guidance provided in IPSAS.

However, ISA 320 does state that consideration should be given to aggregate misstatements, which may individually be immaterial but when taken in aggregate may be material and cause the financial statements to be materially misstated. Note that when considering aggregate misstatements, it is possible to offset amounts and consider the net misstatement against overall materiality.

For practical purposes, organizations often introduce a certain materiality approach to ensure that costs incurred when accounting for an item are never greater than the benefits obtained. Similarly, materiality levels may be calculated at the individual account level or for separate classes of transactions in order to address the following issues:

- to capture misstatements which are individually immaterial (compared to overall materiality) but which in aggregate may be material, for example, in aggregate are greater than overall materiality;
- to adjust materiality where an amount lower than overall materiality for a particular account or class of transaction could reasonably be expected to influence the economic decisions of users of the financial statements; or
- to adjust materiality where qualitative factors indicate a lower materiality may be appropriate.

In setting separate materiality levels which are lower than overall materiality, items which are clearly trivial (see **section 4.5.1**) do not need to be considered.

4.4 Presentation of items in the financial statements

At the end of the year, when the United Nations is preparing its financial statements, various decisions have to be made regarding the presentation of items in the financial statements such as should an item be shown as a separate item or should it be combined with other items.

IPSAS 1 provides preparers of IPSAS financial statements with the following guidance as to what items should be shown as separate items in the basic financial statements: each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.

In addition it is stated that the selection of separate line items is based on the relevance of each item to the understanding of the overall financial statements.

While the decision as to what should be shown as a separate line item in the basic financial statements requires professional judgment, the focus is very much on how material or significant an item is.

4.5 Evaluation of misstatements identified during the financial statements audit

ISA 450: *Evaluation of misstatements identified during the audit* deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements on the financial statements. This standard is relevant to the United Nations management as it provides further guidance on the determination of materiality.

4.5.1 CLEARLY TRIVIAL

ISA 450 refers to misstatements which are 'clearly trivial' (paragraph 5): "The auditor shall accumulate misstatement identified during the audit, other than those that are clearly trivial". These are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

4.5.2 PUBLIC SECTOR ENTITIES

ISA 450 refers to materiality considerations which are specific to public sector entities. Paragraph A20 highlights issues such as public interest, accountability, probity and ensuring effective legislative oversight may affect the assessment whether an item is material by virtue of its nature. This is particularly so for items that relate to compliance with law, regulation or other authority.

4.5.3 QUALITATIVE FACTORS WHICH MAY INDICATE A MATERIAL MISSTATEMENT

ISA 450 provides a list of circumstances which may cause a misstatement to be evaluated as material, even if it is lower than the calculated overall materiality level (paragraph A16). These include circumstances that:

- Affect compliance with regulatory requirements;
- Affect compliance with debt covenants or other contractual requirements;
- Relate to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements;
- Mask a change in earnings or other trends, especially in the context of general economic and industry conditions;
- Affect ratios used to evaluate the entity's financial position, results of operations or cash flows;
- Affect segment information presented in the financial statements (for example, the significance of the matter to a segment or other portion of the entity's business that has been identified as playing a significant role in the entity's operations or profitability);

- Have the effect of increasing management compensation, for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied;
- Are significant having regard to previous communications to users, for example, in relation to forecast earnings;
- Relate to items involving particular parties (for example, whether external parties to the transaction are related to members of the entity's management);
- Are an omission of information not specifically required by the applicable financial reporting framework but which is important to the users' understanding of the financial position, financial performance or cash flows of the entity; or
- Affect other information that will be communicated in documents containing the audited financial statements (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial statements.

Note that the existence of these circumstances does not necessarily lead to a conclusion that the misstatement is material; professional judgment should be used to conclude on materiality.

5 SPECIFIC TOPICS

Some IPSAS standards specifically state that certain requirements only apply to material items. Examples of such areas are discussed in this section.

5.1 Presentation of budget variances

IPSAS 24: *Presentation of budget information in financial statements* requires that the United Nations provides a comparison in its financial statements between its budget and the actual amounts on a comparable basis. In addition, an explanation for each material difference between these two amounts is to be provided.

IPSAS 24 requirements are considered in the **Corporate Guidance on Reporting of budget information in financial statements**.

5.2 Prior period errors

In IPSAS 3: *Accounting policies, changes in accounting estimates and errors*, provides the following definition of prior period errors:

> "Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
>
> a) was available when financial statements for those periods were authorised for issue; and
> b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
>
> Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud."

The IPSASB states that any prior period errors that are material should be adjusted retrospectively.

While the significance of transactions is generally assessed on their individual relevance, the materiality of prior period errors should be assessed on an overall financial statements level as the question is whether the financial statements of the prior period were misstated as a whole.

Therefore any error exceeding the materiality threshold set for the prior period (following the correction of the error) should be adjusted retrospectively.

6 CASE STRUDY: TREATMENT OF CURRENT YEAR ERRORS IN THE FINANCIAL STATEMENTS

This case study will discuss how the concept of materiality could be used when considering whether or not errors in the current year financial records should be adjusted for.

6.1 Scenario

The facts and assumptions of the case study are as follows:

- In May 2014, the United Nations receives a voluntary contribution of $250 million for a new Peacekeeping mission.
- The peacekeeping operations financial year ends 30 June 2014.
- The total voluntary contributions for the reporting entity are $3 billion.
- Total revenue for the 2013-14 financial year is $9 billion.
- Upon receipt of the voluntary contribution of $250 million, it was considered to be unconditional and consequently recognized as revenue in full in the 2013-14 financial year.
- Once the mission started its operations in early August 2014 and the reporting between the donors and the mission's management became more detailed, it came to light that the agreement was indeed conditional and should have been treated as such upon initial recognition.
- Up to the 30 June 2014 year-end, expenses of about $50 million had been incurred, which were covered by the $250 million contribution.

Once the recognition error is noted in August 2014, the decision needs to be made whether the error should be corrected or whether no adjustment needs to be booked in 2013-14.

6.2 Analysis

While the concept of materiality comes down to professional judgment, the United Nations applies certain quantitative thresholds that help to decide the recognition and measurement of items.

However, before assessing whether any of the thresholds are exceeded, one considers which balances are impacted by the transaction or in this case error.

In this scenario, the following base amounts are impacted [4].

[4] Please refer to the **Corporate Guidance on Funding arrangements** for further information on how to account for conditional and unconditional voluntary contributions.

- Revenue from voluntary contributions as the amount contributed was recognized here. The total amount included in this account is $3 billion including the $250 million.
- Deferred revenue: As an element of such contributions, for which the cash was received and not yet expensed under the conditional arrangements, is recognized as deferred revenue, this balance sheet account would also be impacted. The total amount currently recognized by peacekeeping operations as deferred revenue upon identification of the error is $1.2 billion.

In terms of these amounts the United Nations should assess whether an adjustment should be booked.

1) Revenue from voluntary contributions:

As mentioned, the total voluntary contributions are $3 million, including the $250 million which reflects 8.3 % of that total. If the error were to be corrected, an amount of $200 million would have to be recorded as deferred revenue ($250 million - $50 million already recognized as expenses). Therefore, voluntary contributions are overstated by 6.6 % which is in the range where professional judgement should be used to determine materiality.

2) Deferred revenue:

The amount currently recorded as deferred revenue when the error is identified is $1.2 billion. If the error were to be corrected, an additional amount of $200 million would have to be recorded as deferred revenue, which equates to 14.3 % of total potential deferred revenue ($200 million / $1.4 billion). The amount therefore exceeds the threshold of 10 % in the Materiality Framework's quantitative guidelines.

In addition to assessing the quantity of the error, we also consider qualitative aspects of the situation and whether they would impact the analysis:

> Historically, donors have always paid close attention to the treatment and recognition of contributions made to ensure that the money was spent in line with the conditions and requirements. The treatment of contributions is therefore a focus point in the financial statements and always subject to scrutiny.

However, based on total revenue of $9 billion, this $200 million misstatement represents a 2.2 % overstatement of total revenue. Therefore, regardless of materiality in respect to surrounding circumstances, based on overall materiality of $90 million (1 % of total revenue), this matter is material.

6.3 Documentation

To ensure that there is sufficient evidence to demonstrate that management's decision on this matter is in compliance with IPSAS requirements and that management has exercised their professional judgement appropriately, the supporting documentation for this financial statements line item should record the above materiality evaluation.

An example Materiality Decision Document is provided in **Annex I**.

6.4 Conclusion

Based on this quantitative and qualitative analysis, the United Nations decided to book an adjustment for the misstatement.

The adjustment to be booked is for the amount that is to be deferred as at 30 June 2014. As $50 million of expenses were incurred to the 30 June 2014 year-end, the amount to be deferred is $200 million.

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Revenue from voluntary contributions	$200m
Cr	Statement of financial position	Deferred revenue	$200m

ANNEX I: EXAMPLE MATERIALITY DECISION DOCUMENT

Example Materiality Decision Document	
Prepared by: **Prepared date:**	**Decision owner:** *[If different to the preparer]*
Summary of matter to be assessed:	*Reference to further information:*
Quantitative analysis – clearly trivial	(Professional judgement)
1. Is this matter clearly trivial?	
Analysis: *[Matters that are clearly inconsequential, whether individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial]*	
Yes: not material – no further assessment required, go to item **5 – Sign-off**	
No – Continue to item **2**	
Quantitative analysis – overall materiality	(Professional judgement)
2. Is this matter material to the users of the financial statements from an overall materiality perspective?	
Overall materiality: $	
Effect of item: $	
Yes: material – no further assessment required, go to item **5 – Sign-off**	
No – Continue to item **3**	
Qualitative analysis	(Professional judgement)
3. Is this matter material to the users of the financial statements from a qualitative perspective?	
Analysis: *[E.g. the matter affects compliance with regulatory requirements or relates to incorrect selection or application of an accounting policy that has an immaterial effect in the current period but is likely to have a material effect on future periods]*	
Yes: material – no further assessment required, go to item **5 – Sign-off**	
No – Continue to item **4**	
Quantitative analysis – surrounding circumstances	(Professional judgement)
4. Is this matter material to the users of the financial statements from the perspectives of its surrounding circumstances?	
Analysis: *[The assessment of a matter's materiality is made in comparison to similar items – the item can be assessed against the base amount (total) for its surrounding circumstances]* **Base item:** **Base amount(s): $** **Quantitative thresholds:** *[Professional judgement is used when determining and utilising thresholds]*	
Yes: material – no further assessment required, go to item **5 – Sign-off**	
No – Record individually immaterial item in register of misstatements to allow assessment of materiality of all misstatements on an aggregate basis. Go to item **5 – Sign off**	

5. Sign-off	
Reviewed by:	**Reviewed date:**