A Genealogy of Accounting Materiality

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ABSTRACT

This genealogy explores traces of power, agency, events, technologies and concepts that have underpinned the materialisation of the concept of accounting materiality in a historical, social and professional context. An analysis of discursive imagery and metaphor applied to the construct points to the pluralistic, at times contradictory, nature of accounting materiality which has not developed in a rational, linear manner over time. It is the flexibility of accounting materiality (a characteristic shared with generic materiality to which it is related) that has enabled the accounting profession to reify the concept as a malleable, ideational, professional lens. Materiality is multi-faceted and has been aligned to diverse professional objectives, priorities and challenges, either externally imposed by symbolic legal power or internally derived, in attempting to balance good judgment with scientism, practical utility, commercialism, risk and uncertainty in establishing an accounting professional jurisdiction. Underpinning these professional objectives, the concept is inherently qualitative, legalistic and rooted in a capitalist ethos. Furthermore, insights from interdisciplinary studies of generic materiality theorise that the materiality construct manifests in diverse ways in different contexts. Perceptions about the interface between materiality and immateriality are positioned in a material habitus and these frameworks in turn powerfully influence behaviour. The extent to which a framework of perceptions about accounting materiality, located in a professional material habitus, subconsciously influences or restricts the behaviour of actor networks in the performance of materiality decision making may prove to be a fruitful area for further empirical research.
1. Introduction

“Materiality, like beauty, is in the eye of the beholder”, (Hicks, 1964).

Accounting rules affect what is deemed to be rational and socially valuable in an economy (Cooper and Robson, 1996) and the concept of materiality is central in the application of professional judgment in these practices. Materiality in accounting operates as a notion of an acceptable level of error in reporting where a distinction is made between decision-useful data that should be disclosed and immaterial, insignificant information. However, it is a subjective construct that has persistently evaded precise codification since its inception (Power, 1997, p.36).

The current study seeks to explore the genealogy (Foucault, 1991) of accounting materiality in its historic, social and professional context. First, the origins of materiality are investigated which are obscure (Hicks, 1964; Holmes, 1972). Nevertheless, these obscure origins are linked to a pre-existing ancient, more social concept of materiality, deeply rooted in philosophy, theology and social anthropology (Miller, 2005) hereafter referred to as generic materiality to avoid confusion. The importance of generic materiality in the diffusion of materiality in the accounting field has perhaps been overlooked in the literature to date. Second, the study attempts to examine the genealogical conditions underpinning the existence of accounting materiality from its inception, through an investigation of the powers, organisations, concepts and events that have distinctively framed, shaped and delimited its meaning. The term materiality has not been fixed but similar to other key accounting concepts such as prudence, (Maltby, 2005) has passed through different stages of development. The relevance of the discursive positioning of materiality in the link between the accounting profession and its work or jurisdiction (Sikka and Willmott, 1995) is also considered.
Latour (1987) advised researchers to be reflexively vigilant about inherited stocks of concepts and beliefs and the same advice may equally apply to traditions embedded in professional practice codes such as materiality. Accordingly the methodological approach adopted in this genealogical study is reflexive and exploratory. A Foucauldian understanding of the practice of genealogy is employed as an investigation into those every-day abstract elements in life that “we feel (are) without history” but where the past may reveal traces of the influence that power has had upon truth games (Foucault, 1991).

Prior critical research has investigated the history of familiar accounting principles and professional concepts in a social and professional accounting context. Sikka and Wilmott, (1995) evaluated the power of independence in building and defending a professional accounting jurisdiction. Maltby, (2000) identified links between the role of prudence and the practice of social regulation of capital. Materiality is a further exemplum of a well known construct in accounting that is routinely operationalised “without history” but where a gap in the literature may exist for exploring the conditions that have influenced its meaning. This study also seeks to build on the seminal work of Carpenter, Dirsmith and Gupta (1994) who investigated materiality as a social and behavioural rather than a technical, cognitive phenomenon in the social context of an audit firm. Their findings may be developed in this study through mapping the genealogy of materiality beyond the social context of the audit firm, in relation to systems of accounting professionalization and practice boundaries.

The timing of this study may be opportune because a critical turning point has been reached in professional guidance regarding the significance of materiality relative to other key accounting concepts. In the recent conceptual framework joint
project between the IASB and FASB\(^2\) (FASB and IASB, 2007, 2010) the relevance of materiality has been relegated. It is now deemed to be a matter for the attention of client and auditor rather than a subject that falls within the remit of accounting guidance. Furthermore, the IAASB have revised ISA 320 (2010) to withdraw any formal definition of materiality.

It is ironic that this revision (or even relegation) in professional discourses has occurred at a time when the related generic, interdisciplinary concept of materiality is re-emerging as an escalating research area in anthropology, organisational theory sociology, architecture, archaeology and material culture studies (Attfield 2000; Buchli 2002; Dale, 2005; Meskell 2005; Miller 2005; Renfrew, et al. 2005). As notions of an increasingly consumptive\(^3\) (Dale, 2005) and perhaps wasteful society become more prominent, the “question of materiality” and our relationship with the material world around us may be pivotal to the way in which we attempt to understand humanity. Our development socially and economically is bound to the material objects we design and create and perhaps more importantly to the way in which we use those objects (Miller, 2005).

This paper does not evaluate new empirical material but investigates the location of materiality in professional and academic discourses from its earliest appearances to the present (not just in accounting but also law and social and environmental reporting to broaden the scope of the paper). Consistent with a Foucauldian approach, the meaning of materiality is not explored as the rational, linear development and refinement of a concept over time. Instead the paper examines the past conditions and circumstances that have underpinned statements made about the construct. To assist in identifying changes, transitions and also contradictions in the past of materiality, the study focuses on the rich and varied
figures of speech and imagery applied to the concept in statements. Themes that emerge from these images are used to structure the study and are evaluated in relation to circumstances, beliefs and events that provided conditions of existence for a meaning of materiality. The study further draws upon insights both from a theory of generic materiality (Miller, 2005) and from social theory embedded in the semiotics of materiality (Latour, 1987) in evaluating the significance of these themes.

An argument is presented that the diffusion of materiality into accounting has reified\(^4\) a pluralistic, malleable, generic concept as a virtual phenomenon or professional ideational lens. Contradictions in this process of reification cast further light on systems of control and events, both outside and within a professional accounting jurisdiction that have shaped this construct in attempting to balance good judgment (Francis, 1995) with scientism, practical utility and uncertainty in the audit process. Vestiges of symbolic legal power, a capitalist framework of beliefs, systems of accounting professionalization, diverse concepts and technologies are all reflected in the materialisation of this construct over time.

The concluding thoughts of this study further suggest that accounting materiality shares similar characteristics with generic materiality. Our understanding of generic materiality is spatially, temporally and rationally dependent on a material habitus (Meskell, 2005) involving a hybridity of actors, agents and material objects. A material habitus affects how actors see the interface between perceptions of cultural boundaries between materiality and immateriality, which are mutable, not fixed. Thus materiality may manifest in different ways in different societies and disciplines (Miller, 2005). Notions of generic materiality are constructed by a framework of beliefs but equally these frameworks may powerfully influence organisational behaviour and systems of control (Dale, 2005). The findings of this study suggest that
the extent to which a material habitus may restrict or expand our perceptions of materiality and consequently what we are willing or not willing to observe, may prove to be a fruitful area for further research.

The structure of the paper is as follows. Section 2 commences with an overview of materiality in accounting and auditing. Section 3 presents a definition and theory of generic materiality to provide a theoretical frame for the study. Section 4 investigates the diffusion of materiality into accounting. Sections 5 and 6 commence a genealogy of materiality. Sections 7 and 8 further discuss and evaluate the findings and section 9, concludes the study.

2. Materiality in accounting and auditing

This section briefly introduces the accounting concept of materiality. It is not intended to be a comprehensive review of the literature (interested readers on this subject are directed towards detailed papers by Holstrum and Messier, 1984: Iskander and Iselin, 1999; Messier et al, 2005 amongst others) but focuses on the relationship between accounting and auditing materiality and key problematics associated with the concept.

Materiality has long been regarded as an important information threshold that operates primarily for the benefit of information users (SFAC, 1980). Accounting and auditing materiality are interrelated although not interchangeable. In preparing financial statements, materiality decisions about the truth and fairness of representations are initially made by management. Where a financial audit is undertaken, final decisions regarding materiality are reached by audit practitioners (Gray and Manson, 2008). Thus auditing is also ultimately concerned with accounting materiality\(^5\) (Thomas and Krogstad, 1979, p. 74) but auditors employ professional guidance and experience in assessing materiality \textit{independently}. This
study focuses predominantly on materiality in auditing (but not exclusively) because it is through the practice of independent auditing that the accounting profession and systems of professionalization have developed (Sikka and Willmott, 1995).

Although familiar to all practitioners as a “matter of professional judgment”, the concept is poorly understood in practice (Ward, 1976). Materiality decisions are vague because the assessment of a material item is an opinion rather than a mechanistic process (Gray and Manson, 2008) and thresholds are not disclosed. No set of rules can be employed consistently to evaluate materiality in all circumstances. Not surprisingly, an extensive literature has developed on the subject. In a nutshell, normative research and professional guidance has posited that accounting materiality is linked to the concept of decision usefulness, a true and fair view (Chastney, 1975; Turley and Cooper, 1991) and quality in financial reporting (Watkins et al., 2004). A single dominant cue that has shaped materiality judgements is the size of an item relative to net profit (Iskander and Iselin, 1999; Holstrum and Messier, 1982). However, users, management and auditors have all demonstrated different materiality thresholds (Holstrum and Messier, 1982). Even trained professionals could reach different conclusions in similar circumstances (Boatsman & Robertson, 1974; Moriarty & Barron, 1976). A number of studies (Estes and Reames, 1988) found that personal characteristics affected materiality judgements. Messier (1983), Krogstad et al. (1984), Carpenter and Dirsmith (1992) concluded that experience had a significant impact on auditor judgements and industry experience was one dimension of experience (Wright and Wright, 1997). Much prior research has viewed the judgment formation process as a technical or cognitive phenomenon where cues influenced judgments and the experience of auditors influenced the nature and number of cues as well as the thresholds used in forming materiality judgments. Carpenter, Dirsmith
and Gupta (1994) however, drawing on social theory, interpreted the audit process and materiality judgments as a social and behavioural phenomenon, influenced by the social context of an audit firm.

Other empirical and critical studies have persistently identified difficulties both in the theorisation and operationalisation of the concept. Materiality to date has not been well specified in the professional guidance or academic literature (Brennan and Gray, 2004) leaving the auditing profession open to charges of mystification, paternalism and materialism (Bernstein, 1967; Roberts and Dwyer, 1998; Brennan and Gray, 2004; Shaub, 2005) where it has been suggested that the materiality concept lacks transparency to the extent that it only nominally serves the interests of users of financial information.

The definition of materiality was withdrawn by the IAASB in 2010 and the metaphor traditionally applied to materiality as a “threshold” or cut off point is no longer employed in revised ISA 320 (2010), the rationale being that any formal definition of materiality is too prescriptive (Hillier, 2010). ISA 320 now outlines the characteristics rather than the designation of materiality. Viewed together with the relegation of the importance of materiality in the joint FASB and IAASB conceptual framework, this withdrawal of a formal definition may signal that discourses about materiality have reached a level of saturation.

This raises pertinent questions. Has the concept been overrated in the past (as Bernstein hinted, 1967) or as Blough (1947) once commented, is it easier to deal with controversy about the concept by not defining it, "The question of what is material has puzzled a great many people over a great many years, yet nobody is prepared to define it so that it does not ultimately rest on someone's judgment."
At this juncture, an exploration of the genealogy of the materiality concept may assist in providing a fresh understanding of the past of this enigmatic problematic which has been poorly understood and its relevance to an accounting jurisdiction.

3. A theory of materiality

To provide a theoretical framework for this genealogy, this section outlines a definition and theory of the ancient, generic concept of materiality and also explores etymological links between accounting and generic materiality. Knowledge of how words have been used in the past informs current debate in accounting about developments in meaning (Mills, 1989) and the origin of words employed to talk about accounting concepts can potentially signal much both about the word itself and what the word is used to mean (Parker, 1994).

To define generic materiality both succinctly and comprehensively is challenging because it is a pluralistic concept. It underlies divergent systems of belief in philosophy, natural science, social sciences, economics and finance and professions such as law and accounting but these meanings of materiality are all conjoined in common roots (Miller, 2005; OED, 2010).

The simplistic meaning of the term materiality (or brute fact, Searle, 1995) is “that which or the quality that constitutes the matter or material of something” (Oxford English Dictionary OED, 2010) derived from the Latin noun ‘materia’ (wood, timber or matter). However, it also has a more complex meaning, as a social construct (derived from the Latin root ‘materialitas’) that signifies the substance of the visible material world (in contrast to the realm of the invisible or immaterial); the outward appearance or externality of something and the quality of substance, being substantial, important or relevant (OED, 2010). The paradox of the materiality
concept is that it deals with the uncertain interface between our perceptions of the material (visible) and the immaterial (which may be important or insignificant, or unknowable).

A useful reference point for exploring materiality is the body of research on the subject within the field of material culture, in particular Miller's work exploring the materiality concept in social anthropology (Miller, 2005). Miller observes how distinctions between materiality and immateriality have manifested in idiosyncratic ways in different disciplines (accounting materiality is one example amongst many others). Societies and organisations are often defined by their interpretation of perceptions about materiality and immateriality.

In Ancient Egypt, these perceptions were predominantly spiritual, where the iconic artefacts associated with that civilisation (pyramids, mummies and statues) were created as the powerful material expression of a desire to control the uncertainty of the afterlife through artefacts of enchantment (Miller, 2005)\textsuperscript{8}.

In classical philosophy and theology, materiality has often represented an inferior level of reality and comprises mere objects beyond which lies knowledge of truth and reality; beliefs that have inspired myths such as Plato’s parable of the cave\textsuperscript{9}.

In contrast, the theory of materialism\textsuperscript{10} in ancient Indian philosophy (Debiprasad, 1993), later developed by Hobbes, Gassendi, Feuerbach and Marx amongst others asserts that the only thing that exists is matter. All things are composed of material and all phenomena (including the mind and knowledge) are the result of material interactions.

The natural sciences have tended to see the concept of materiality as physically constituted by natural objects which can become the object of knowledge by the mind. Such an approach may have long before encouraged the development in philosophy of
a distinction between a thinking subject “mens rea” and “res externa” out there, a paradigm developed more fully by Descartes in Cartesian dualism, (Descartes, 1641; Dale, 2005).

In current times, where our relationship with material objects is predominantly consumer orientated (Dale, 2005), an understanding of materiality has evolved as the accumulation of material commodities and the source of our extended capabilities as human agents (Marx, 1974; Parry, 1994). A distinctive characteristic of the interface between materiality and immateriality in finance theory is the materialising potential of finance and economic theory. The ability of traders to exploit imperfections in the operation of theoretical financial models in capital markets to create real material gains and wealth through arbitrage activities is one substantial example (Miyazaki, 2005). Indeed, Marx linked the notion of materiality with capitalism because exploited workers lost their humanity where their material being (as people who made themselves through their own labour) was denied to them by the constraints of capitalism.

These examples of different manifestations of materiality demonstrate the extent to which the concept is multi-faceted. As Miller (2005) writes in his preface to a collection of inter-disciplinary articles on materiality (in politics culture and history),

“A volume that spans topics as diverse as cosmology and finance cannot afford to rest upon any simplistic definition of what we mean by the word material. It needs to encompass both colloquial and philosophical uses of this term. We may want to refute the possibility of calling anything immaterial. We may want to refuse a vulgar reduction of materialism to simply the quantity of objects…The term material might convey artifacts. But this definition soon
breaks down as we move on to consider the larger compass of materiality… (Miller, 2005, p. 4).

Miller presents an encompassing definition and theory of materiality that situates the concept within a larger specific conceptualization of material culture. The inherent tension between materiality and immateriality (where boundaries are often blurred) materialises in different ways according to our perceptions about the material world around us. The idea of a material culture or material habitus, which owes its origins to Pierre Bordieu, is a world conceived and constructed by us, yet equally shaping of human experience in daily routine (Geskell, 2005).

One of the most influential additions to a theory of materiality that assists in understanding the apparent contradictions within different manifestations of materiality, is sourced from the work of Bruno Latour, focussing on the term agency (Miller, 2005). Moving away from a Cartesian dualism, Latour suggested that the reality of the world consists almost of a hybridity, a network of agents (actors and material objects) and relationships between them. Actor Network Theory (ANT) has been utilised in exploring belief systems including accounting practices (Jones and Dugdale, 2002) where systems can be described as networks which bind together humans and non-humans to form ‘seamless webs’ (Hughes, 1988). Referred to as “the semiotics of materiality”, John Law (1999: 9) ANT takes the semiotic insight, that the significance and communication of belief systems is produced in the relationality of entities. This applies to all human actors and materials. In the context of organisational life, specific material objects in themselves may appear to be of less significance but their relevance (and the relevance of generic materiality) is hidden in the construction of systems of control (Dale, 2005), including, in accounting, judgments that are made in transcribing the characteristics of
a material culture into visible decision-useful information (Robson, 1992) or decisions to omit the immaterial. As Bernstein (1968) once stated, “the concept of (accounting) materiality is part of the wisdom of life”.

A theory of generic materiality, located in a material habitus, may frame research questions that enhance an exploration of the genealogy of accounting materiality from an interdisciplinary perspective. How was the concept of materiality diffused into an accounting arena and what agencies may have shaped its development? Given the importance of generic materiality in defining humanity in social anthropology, what might the discursive framing of the accounting construct of materiality reveal about the outlook of the accounting profession and influential powers that have shaped its meaning? How have the tensions inherent within the generic concept of materiality between the blurred boundaries between materiality and immateriality manifested in an accounting arena?

The paper proceeds by examining in section 3 evidence about the obscure origins of accounting materiality. This is followed in sections 4 and 5 by a genealogical approach to the examination of its past.

4. The diffusion and reification of materiality in accounting

Accounting materiality could not exist independently of a system of beliefs or thoughts. Although the term is dependent on the external reality of material objects or social agreements such as financial rights and obligations it is ontologically subjective (Searle, 1995). This section of the paper examines the key external stimuli and influences that may have been instrumental in the diffusion\(^{14}\) of the concept into accounting discourses.
Little was written about accounting materiality until after the Second World War (Hicks, 1964). The adjective “material” was certainly used at the turn of the twentieth century when it appeared in early auditing texts (Dickinson, 1908; Hicks, 1964) and it also appeared in many of the AICPA’s early pronouncements in the US (Newman and Mellman, 1967). The word material was not defined in accounting discourses at this time which suggests the notion was already familiar to accountants, probably in a legal context (Hicks, 1964).

An early legal definition of the term “material” can be found in nineteenth century law lexicons,

“The word material means that the subject matter of the statement (or concealment) related to a fact or circumstance which would be important to the decision to be made as distinguished from an insignificant, trivial or unimportant detail”, (Wharton, 1883).

Major influences on materiality in accounting may have come from the courts of law and the various Companies Acts in the UK (Lee, 1984). Holmes traced nascent characteristics of accounting materiality (as significant errors or omissions) to UK legal cases involving accounting misrepresentation, as far back as the 1860’s, “In any prospectus no misstatements or concealment of any material fact ought to be permitted”. Central railway of Venezuela v Kisch (1867) and to the Companies Act 198516 “every contract or fact is material which would influence the judgement of a prudent investor”.

The legalistic meaning of the term “material” can most likely be traced to the idea of a “test of materiality” in English literature that attempts to differentiate between the visible and immaterial, between the substantial and insignificant. A very early question or perhaps “test” of materiality was posed by the mathematician John
Dee in his Mathematical Preface to Henry Billingsley’s English translation of Euclid's Elements (1570). He posited that mathematical signs were abstracts, at an intermediate level of being, somewhere between matter and spirit and implied (perhaps ironically for accounting theory) that materiality was an earthly, physical property that could not be applied to numbers.

“Neither Number, nor Magnitude, have any Materialitie” (Dee, 1570).

Bentham (1789) later employed the idea of a materiality test to evaluate the morality or appropriateness of an act, “There are two points, with regard to which an act may have been advised or unadvised: the existence of the circumstance itself and the materiality of it.” The materiality concept was also linked to the application of rules or a test in a specific context, “rules which tend to secure the materiality of the issue” (Stephen, 1824) and later by Kennedy (1849) to describe the importance of documents, “the relevancy or materiality of the papers referred to, was not shown.” The linkage of the notions of substance (both physical and metaphysical) and generic materiality perhaps explains why the term was adopted into professional discourses, Law in particular.

Early usage of the word material in accounting discourses did not point to any distinct, goal or discipline orientated formal rationality in accounting (as defined by Weber, 1968) but suggested a general notion of importance or significance,

“…the public accountant is bound to see that all material facts are set out in his certificate”, (Dickinson, 1908, quoted in Holmes, 1972).

Dicksee (1992) also employed this term in a more physical sense,

“The printed instructions cannot be more than a mere outline of an Auditors duties but they can be so framed as to be of material assistance to the audit clerks”, Dicksee, (1892, p 19).
An understanding of the adjective “material” was most likely imported to the US from the UK in the last fifteen years of the 19th Century by the numerous British Chartered Accountants who emigrated there (Holmes, 1972).

It was not until the early 1930’s, however, that specific criteria were produced, in the US, for judging an item to be “material”, formalised by the SEC in Regulation S-X rule 1-02 in relation to certain disclosure requirements (Hicks, 1964).

From 1938 onwards, in the US, as the accounting profession started to develop a formal programme of guidance (Zeff, 2009) a transition began to take place from use of the adjective “material” to an abstract construct of “materiality”. The current study suggests that this marked the beginning of a distinct process of reification of accounting materiality as a distinct phenomenon in the work of accountants and also signalled the emergence of a more distinct conceptual ownership of the term in the work of accountants. It is at this point that the following genealogy commences.

5. A genealogical approach to exploring accounting materiality

To explore the genealogy of accounting materiality, a Foucauldian approach is adopted that investigates the meaning of statements in the context of events and related discourses. The history of a concept is not wholly and entirely that of its progressive refinement and a genealogy is not a construction of a linear development but traces the plural and contradictory past that points to traces of the influence that power has on truth games in discourses (Foucault, 1969, p.5).

To conduct this study, statements about materiality in professional and academic discourses in closely related areas of accounting, law and social and environmental reporting (in particular US, UK and International professional guidance, textbooks
and academic literature) are investigated. These fields are sufficiently diverse to add levels of text and meta-texts to broaden the breadth of discourse analysis.

A striking feature of the discursive positioning of materiality is the rich and varied use metaphor and simile applied, which is often mixed and conflicting. The study therefore adopts an impressionist approach rather than reportage in focussing on the figures of speech and emotive imagery applied to materiality. Contradictions and transitions in imagery may represent cues regarding changes in external conditions that impact on meaning.

Metaphors construct an analogy between two things or ideas. Similes also make associations but allow ideas to remain more distinct. Metaphors in particular provide theoretical insights into word associations and latent meanings because they are direct comparisons and can be viewed as conduits of word associations that work together to provide meaning and context. Imagery can assist in signalling traces of stimuli and factors that have been synthesised in the construction of a concept and aids the understanding of a conceptual domain.

Dirsmith and Haskins (1991) have highlighted the relevance in organisational theory of deep metaphors that organize the audit process. Furthermore, this study seeks to ask not only ‘what’ but ‘why’ specific figures of speech have been employed and under what circumstances to probe the rationale and processes of organisational behaviour and control that underpin metaphor (Robson, 1992).

Images that emerge from the analysis of data are used to structure the paper rather than following a time line, which is more appropriate to a Foucauldian genealogical approach. Transitions and contradictions in images are linked with developments in accounting theory and professionalization and the study further draws upon theoretical insights from the generic concept of materiality (Miller, 2005).
and from social theory, ANT in particular, embedded in the semiotics of materiality (Latour, 1987) in evaluating these findings.

6. Themes

Materiality - A child of law and foster child of accounting

One of the earliest metaphors applied to accounting materiality characterised it as a “child of law” (Holmes, 1972). The origins of accounting materiality were probably conditional upon the pre-existence of a legal understanding of the term, as discussed in section 4. The strikingly anthropomorphic image of accounting materiality as a child points to the influence of the symbolic power of the legal profession, in a quasi parent/child relationship, that has presided over the boundary work of professional judgment in materiality judgments.

Indeed, Holmes (1972) further qualified this metaphor by adding the phrase and “and at best a foster child of accounting”, which provides an even more nuanced insight into these jurisdictional boundaries. The concept may not be a natural product of the work of accountants. By nature, it is a qualitative notion in law, transplanted or imposed by the legal profession into a predominantly quantitative field and then fostered by the accounting profession. A foster child is a ward, where the foster parent looks after routine matters but ultimately the court is in “loco parentis”.

As accountants emerged as a distinctive group, increasingly providing niche audit services, leading practitioners within the accounting profession both in the UK and US, favoured a more informal inductive approach in work towards principles and professional judgment (Zeff, 2009), an attitude that may possibly have reflected the hitherto laissez-faire attitude of the state towards economic management (Loft, 1988) up until the first world war. The profession was slow to perceive a need to produce
professional guidance which left practices and boundaries indistinct and vulnerable to challenge from other organisations.

One of the earliest formal definitions of accounting materiality was produced in the US, not by the accounting profession, but by a federal power, the SEC in Regulation S-X rule 1-02 in the early 1930’s.

“The term "material," when used to qualify a requirement for the furnishing of information as to any subject, limits the information required to those matters as to which an average prudent investor ought reasonably to be informed before purchasing the security registered", (United States Securities and Exchange Commission, Regulation S-X).

The timing of this statement was important, not long after the Wall Street Crash of 1929 following extensive criticism of the profession in relation to accounting irregularities (Rutherford, 2007). The importance of practical reasonableness, without clutter, for an informed prudent investor, in certain disclosure requirements appeared to drive this definition.

In the continuing absence of formal guidance, legal powers continued to challenge the profession’s understanding of materiality and professional judgment in accounting work. In a landmark case in the UK, Rex versus Kylsant (1932), in an infamous critical ruling against the judgment of the profession over misrepresentations in disclosures, the boundary of a material error in accounting was significantly extended to include omissions (and not just errors) in data. Previously, the understatement by accountants of “material” secret reserves had been considered prudent and acceptable (Edwards, 1976). This view was challenged by Sir John Simon stated page 84,
“is it material to consider what is omitted when you have a document every single word of which is true? … The real test, I apprehend, is— is that which is said to have been omitted”.

The term material was used 20 times by the judiciary amongst only 50 paragraphs. The courts thus redefined and realigned perceptions about acceptable practice in the distinction between important and insignificant information.

The ICAEW’s first formal programme for dispensing advice about proper accounting practices was later issued between 1942 and 1969, the ‘N’ Series of Accounting Principles. Interestingly, amongst 192 pages there were 175 references to the adjective ‘material’ including material fact, material change, material shortfall, material development, material effect and material reserves amongst others. The adjective “material” was peppered everywhere throughout the guidance but nowhere was the term materiality defined, (although definitions were emerging in the US). Thus, the adjective possessed legalistic symbolism but lacked distinct professional conceptual ownership at this stage. The motivation behind the production of this guidance was again in response to calls for clarity about principles not from leading audit practitioners but from accountants outside the profession (Zeff, 2009) which echoes observations by Sikka and Willmott (1995) regarding a lack of homogeneity in the jurisdictional work of accountants.

Holmes further aptly predicted that the materiality concept would always be challenging to define in professional guidance because the reasonableness of decisions could only ever be judged, ultimately, externally, in a court of law, on a case by case basis,

“The courts would judge us subject to the concept of materiality even if the word had been omitted entirely from the literature”, Holmes (1972, p 49).
This perception of materiality as a ward of court has persisted. Although a clearer understanding of accounting materiality has evolved in law (more so in the US than in the UK\textsuperscript{19}), the boundary work of accountants has been deemed vulnerable unless a stronger definition of accounting materiality is enmeshed with a common law definition. The courts might be more likely to abide by a universal materiality standard if a specific definition could be developed, synthesising an accounting understand with judgments in case law, as distilled by Bean and Thomas, (1990)\textsuperscript{20} but the accounting profession has not moved towards such a consensual approach. Therefore US lawyers still comment on vagaries inherent within the materiality concept and the law literature continues to call for further examination of guidelines set forth by other jurisdictions and more factual examples of materiality decisions (Ling Lee, 2004). The legal Profession retains a powerful parental role and influence over the notion of acceptable practice in materiality decisions and decision-usefulness in an accounting jurisdiction.

\textit{Materiality and the power of the mythical reasonable man}

Linked to symbolic legal power, the notion of the mythical reasonable man in law for whom the materiality concept should operate has also been a powerful image and force in shaping the materiality concept and accounting systems. The professional and academic literature both in the UK and the US has extensively debated the identity of this mythical man,

\begin{quote}
``Who is this beholder, or prudent man, or reasonable person? (Hicks, 1964)."
\end{quote}

This has been far from clear. The SEC viewed “him” as a reasonably informed prudent investor. Kohler (1952) envisaged a reasonable person in an accounting dictionary definition,
“Materiality: the characteristic attaching to a statement, fact, or item whereby its disclosure or the method of giving it expression would be likely to influence the judgment of a reasonable person”, (Kohler, 1952).

The American Accounting Association signalled that materiality should operate more specifically for an informed investor (1957).

“An item should be regarded as material if there is reason to believe that knowledge of it would influence the decisions of an informed investor”.

The Profession has long accepted that ultimately this perception of the mythical man frames assumptions about the materiality concept in boundary work.

“We must identify him, for our materiality decisions ultimately depend upon how we perceive him. In effect, we have to assume his position in order to judge how financial statements or particular items therein will influence him. At best, this is no easy task” (Hicks, 1964).

Materiality judgments are ultimately guided by this notion of misleading or influencing the reasonable man. However, the word influence is vague. Ultimately, materiality decisions have material consequences for the mythical man, where auditor negligence in arriving at materiality decisions may result in a financial loss. This points to a narrow materialistic, legalistic interpretation of the construct designed to minimise audit risk rather than a more altruistic understanding implied by the word “influence”. The accounting profession has specifically excluded other stakeholders and their divergent interpretation of materiality from the boundary of accounting work,

“The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered,” (ISA 320 paragraph 2).
This fixation on the mythical man as a likely investor, also demonstrates that the roots of accounting materiality are entrenched, like audit, in the growth and volatility of capitalism (Sikka and Willmott, 1995). If the materiality concept is tailored to respond to professional and legal expectations of the mythical investor’s materiality thresholds, the concept is aligned to the investment and management of capital. Wherever significant financial crises arise, inevitably the audit profession is involved in subsequent forensic investigations (Power, 1997, p. 26) and by implication the framing of materiality decisions. At this juncture, it is relevant to compare the different way in which the materiality concept has been transplanted and is developing in the Corporate Social Responsibility (CSR) field, which is driven by a contrasting set of broad stakeholder information needs.

*Accounting Materiality, a narrow myopic lens?*

The materiality concept is evolving in a substantially different direction in CSR where it has relatively recently been adopted as a core reporting principle in assurance (SERA). Therefore, an analysis of imagery and cultural differences in the way materiality is being constructed in this relatively new field may point to further specific conditions that have helped to shape a distinctive notion of accounting materiality.

In CSR, which is an unregulated market, three prominent independent organisations have been the driving forces behind the importation of the materiality concept into SER reporting guidance: The International Federation of Accountants (IFAC); AccountAbility and the Global Reporting Initiative (GRI). A traditional accountancy view of materiality, as outlined by ISA 320, not surprisingly underpins
the approach advocated by IFAC\textsuperscript{21} in International Standard on Assurance Engagements 3000 (ISAE 3000).\textsuperscript{22}

However, the AccountAbility and GRI guidance have redefined the traditional accounting concept of materiality to reflect specific organisational objectives,

“a new approach to materiality is needed\textsuperscript{23}, to help businesses manage the sustainability imperative for the long term, bridging the gap between the narrow focus of financial materiality and the wide lens of stakeholder inclusive reporting … Traditional assessments of financial materiality take an overly myopic view of what drives business performance” (AccountAbility, 2006, p. 13).

It is the drivers of these different organisational objectives that are relevant here. Accounting materiality is viewed as a narrow lens. In CSR, where there is an absence of clear quantitative benchmarks, it is corporate behaviour, the meeting of targets and future improvement in business performance that are of the utmost importance. This wider interpretation of materiality has been described by O’Dwyer and Owen (2005) as a broader “stakeholder based” understanding of materiality.\textsuperscript{24}

A broader stakeholder audience and a more stakeholder orientated approach involving NGOs and academic institutions have greatly influenced the development of professional guidance in this locale, where the materiality concept has been codified to meet a different set of external user expectations.

The materiality concept in CSR looks beyond the expectations of the average prudent investor because it is predicated upon a more qualitative understanding of what is important to society in general. Moreover, in this narrative reporting field, where there is a reduced risk of legal liability litigation (although it remains a greater
risk for accounting firms in this market), the materiality concept is less restricted in scope.

Materiality – an economic necessity

Early images of materiality in statements also reveal a different set of internal influences in the development of the construct, quite distinct from external legal forces, as a matter of professional convenience and expediency. A central question in the audit process has always been how much testing should the auditor do (Power, 1992). Hicks (1964), a partner in Arthur Young, viewed materiality as a practical, economic necessity that was instrumental in maintaining a balance between over and under-auditing and overall business success,

”materiality means simply this: if it doesn't really matter, don't bother with it” (Hicks, 1964).

Reininga (1968) also speculated that the meaning of materiality was a “short hand” term to distinguish between trifling and important matters.  

The economics of auditing after the turn of the Twentieth Century forced auditors to be selective about audit work (Power, 1992). A professional lens that facilitated expediency in the audit field by distinguishing between trifling and important matters was not just useful but perhaps “vital” (Frishkoff, 1970). Bernstein, Assistant Professor at the City University of New York, agreed with such a pragmatic view,

“materiality means basically that there is no need to be concerned with what is not important or with what does not matter. Man’s work is burdensome enough without his having to pay attention to trivia” (Bernstein, 1973, p. 68)

Fritzemeyer (1973, p.3) concurred, “A lack of understanding of the materiality concept can result in over-auditing by the conscientious professional”. 


Given the fuzziness and lack of a clearly defined end product in the audit process (Power, 1997, p.6), the normative appeal of a concept that not only powerfully focussed on matters that mattered but metaphorically conveyed an *impression of substance* to professional judgment was probably compelling.

One of the reasons the ICAEW favoured developing the notion of a true and fair view as a primary audit objective, moving away from certification, was that this would also allow the development of the materiality concept in professional guidance (De Paula, 1948). Materiality as a type of filter for trivia complements the objective of forming an opinion about truth and fairness.

Images legitimising the utility and functionality of the materiality concept appeared in statements,

“if financial statements are to be prepared and examined with anything approaching reasonable economy and if they are to be meaningful and useful, such a *doctrine* (of materiality) is indispensable. Without such a *rule*, unwarranted amounts of time would almost certainly be spent on insignificant matters, and financial statements would undoubtedly be cluttered with useless or unimportant information, obscuring the necessary and important facts and relationships they are intended to convey,” (Hicks, 1964).

Portraying materiality as a doctrine has a certain gravitas, associated with religious or authoritative writings. Spending time on insignificant matters in turn was negatively associated with cluttering and obfuscation in reporting. To further justify the application of materiality, it was suggested that this concept was widely used in business, in separating wheat from chaff,

“To help keep the subject in perspective…the concept is widely and frequently used. For example, when a business executive, applying the technique of
"management by exception," cuts through to the matters of significance, he is recognizing materiality. When the president of a corporation, presenting non-financial data in reports to stockholders, prunes away details, he is recognizing materiality” (Hicks, 1964).

Evidence that a notion of expediency remains embedded in external perceptions about accounting materiality can still abounds,

“When we (all of us: the press, companies, lobbyists, Congress) talk about the level of burden that accounting firms have been placing on corporations these past five years…due to the significantly increased amount of time that audits are taking… trying to tease out exactly why they are taking longer and why more people are involved is difficult…When I ask, I get a host of different but related answers…They appear to have lost any sense of the time-honored accounting concept of "materiality" (Wilcox, 2007)"

A distinct set of professional motives has developed the concept as a utility within accounting work in attempting to balance good judgment with economic viability but this may also be construed by users as a form of “time-honoured” value for money auditing where a balance is achieved.

*Materiality as a level of tolerable error and a cornerstone*

Metaphor applied to materiality acquired an image of greater substance and measurability in the late 1950’s onwards, marking the influence of a further set of technical ideas and events upon the reification of the concept. As the profession attempted to further establish its practice boundaries and expertise, promoting its claims as a neutral expert in providing a technical and objective point of view (Sikka and Willmott, 1995), the profession gradually enhanced the scientific authority of
audit processes and an intensification in the discourse of expert judgment followed (Power, 1992).

With the rise of systematic audit processes, such as statistical sampling from the 1930’s and more markedly from the late 1950’s onwards (Power, 1997, p.85) a more strongly quantitative association of materiality with an acceptable level of error appeared in statements about materiality. The materiality concept was linked with the concept of a tolerable error, thus facilitating the establishment of a more robust, scientific theorisation of the materiality concept that is still prevalent in auditing texts.

“When testing amounts, a tolerable error is equal to the materiality level set by the auditor”, (Gray and Manson 2008, page 419).

There is a similarity here between accounting materiality and an understanding of materiality in the natural sciences, where the properties of objects or materials (or audit evidence) can be tested, measured, calculated and known objectively by the thinking subject. A scientific understanding of the material qualities of physical objects may have assisted the development of a more scientific understanding of materiality in accounting.

Materiality was also portrayed as a solid, structural phenomenon, “one of the cornerstones of accountancy” (Frishkoff, 1970; Lee, 1984). A cornerstone is the first stone set in a masonry construction. It is fundamentally important, as all other stones are set in reference to this stone, thus determining the position of the entire building. In a similar way, materiality was rhetorically positioned as a more scientific concept or epistemic foundation that guided the entire audit process.

The move towards linking scientism and scientific process with materiality in auditing was also a mechanism for the profession to reposition and justify economic necessity.
The dark side of materiality - a Pandora’s box?

Other images however, indicated that there was a gap between the programmatic appeal of materiality as an outwardly rational/acceptable phenomenon and backstage practices in the work of accountants (Power, 1997). Contradictions in metaphor reflected extensive concerns amongst practitioners and academics alike who were wary of the veneer of authority assigned to the construct whilst it masked uncertainty and questionable practices in the audit field. Deficiencies in guidance provided scope for latent abuse of the concept.

Griffin (1959) warned of the dangers of standing behind the “aegis” of materiality as a matter of expediency, “for it will undermine the significance of precision as a mental discipline and instead encourage inexactitude and approximation”. The wearing of the aegis denotes sponsorship or protection normally derived from a higher authority or deity and the characterisation of materiality as mysterious type of spiritual protection or shield perhaps recalls Pentland’s (1993) comparison of the Profession to a quasi priesthood and the practitioner as a ritual priest where ritual procedures could transform indeterminacy into institutionalised order (Pentland, 1993).

Other metaphors also clearly conveyed vagueness, “Without a doubt materiality is the mystery concept of accounting” and “part of the art of accounting”, (Rose et al, 1970). The power of an audit depends in part on a certain vagueness about its scope and meaning (Power, 1991, p.10) and the materiality concept, operating at the interface between good judgement, uncertainty and commercialism combined this element of mystery with an aura of substance.
However, the lack of operationalisation guidance associated with materiality concept was deemed to be akin to the accounting profession releasing all manner of evils into the world,

"essentially materiality is used to justify practices and procedures which we recognize as wrong, or at least as questionable…there exists a real danger of opening a Pandora's box in the accounting world because materiality is not well defined and its applications not defined at all”, (Hylton, 1961, p.63).

Bernstein, (1967) famously described materiality as a “mysterious black box” which could be viewed solely in terms of its inputs and outputs, without any knowledge of its internal workings.

**Materiality – a percentage or not?**

Calls from academics and practitioners for clearer guidance in the operationalisation of materiality abounded,

“A survey of widely quoted definitions suggests that the matter whilst somewhat ineffable has been settled to everyone’s satisfaction. Yet if one but reread them it is evident that problems certainly do exist. Not one of these definitions is by itself operational” (Frishkoff 1970, p116).

In the US, in March 1975, the Financial Accounting Standards Board (FASB) issued a discussion memorandum called “An Analysis of Issues Related to Determining Criteria for Materiality”. Materiality in an accounting sense was not definitively explicated but was related to the generic fairness of financial representations and the threshold of user influence (Thomas and Krogstad, 1979). It was never published because it was deemed impractical to produce detailed quantitative prescriptive guidelines to determine materiality is all situations (Iselin and Iskander, 2000).
In the US, a move towards a more qualitative understanding of materiality began to develop. In contrast, in the UK, in response to the fallout from financial scandals in the UK in the 1960’s combined with academic and Government criticism over inconsistency in accounting rules, the Accounting Standards Committee (ASC) in the UK attempted to narrow these areas of divergence (Rutherford, 2007) and one of these measures included attempts at a definition of materiality quantitatively in percentage terms. Statement of Standard Accounting Practice (SSAP) 3 (1972) for example attempted to define materiality as a percentage of 5% in the computation of earnings per share and other SSAPs similarly introduced specific thresholds. The term ‘material’ also appeared throughout published accounting standards. In 1984, there were 70 such instances in the UK Statements of Accounting Standard Practice (Lee, (1984). However, the materiality concept was still not clearly defined.

The Australian Accounting Standards Board also issued, in 1995, Accounting Standard AASB 1031 that suggested 10% of a base amount as a broad rule of thumb is presumed to be material while 5% or less is presumed not material. However, simple percentage rules did not work in practice because this simplicity and rigidity left the application of materiality judgments open to widespread abuse and resulted in an industry of creative accounting that sought to exploit the rules (Blakemore and Pain, 1998).

Materiality - a qualitative “threshold”

In the US, a more qualitative definition in materiality was evolving, defined in SFAC (1980), that recognised the softer, qualitative, relative characteristics of the materiality concept,

“Magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a
sufficient basis for a materiality judgment. The Board's present position is that no general standards of materiality can be formulated to take into account all the considerations that enter into an experienced human judgment” (SFAC 2, 1980, p.7)\textsuperscript{26}

Materiality was being distanced from science and objective measurability and located more strongly in the domain of professional judgement.

Materiality was distinctly described as pervasive rather than a primary characteristic of information, making it difficult to consider as a notion in its own right apart from how it related to relevance and reliability\textsuperscript{27}.

This image suggested that materiality underpinned but was enmeshed with other concepts. At the same time, paragraph 126, portrayed materiality judgments as concerned with screens or thresholds, linked to the probability that the judgment of a reasonable person would be influenced by the omission or misstatement.

A threshold may be visible and physical, as in the lowest part of a doorway or a measurement in the form of a point where action is started, or fixed numerical limits are employed, such as income tax thresholds. The metaphor of a threshold therefore in the context of SFAC 2, conveniently implies measurement but without specificity. A screen is also a conveniently vague metaphor that refers to filtration, or selection but screens may equally be transparent or opaque. This complex and vague definition was criticised as lacking any meaningful substance,

“Companies are required to tell the public ‘material information,’ but ‘what's frustrating about ‘materiality’ is that there is no clear definition," says Paul R. Brown, chairman of the accounting department, New York University's Stern School of Business. "Policy makers have literally avoided defining materiality." (Wall Street Journal, 1999).
SFAC 2 in turn influenced the later formulation of SAS 220 (1995) in the UK, by the Auditing Practices Board,

“Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole…materiality is not capable of definition as it has both quantitative and qualitative aspects.”

A sub notion of planning materiality at the planning stage of the audit was also introduced in SAS 220. The Accounting Standards Board similarly described materiality in its Statement of Principles for Financial Reporting in November 1995 as a threshold quality.

The IASC and IASB also adopted the imagery of a threshold, where materiality was defined, in the Framework for the Preparation of Financial Statements between 1989 and 1991, as follows,

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

Here an additional metaphor off a cut off point is introduced as well as a threshold but a cut off point is also subjective, often associated with capital budgeting and capital investment decisions in the evaluation of risk and return, further traces of underlying capitalist influences on imagery and rationale.
Materiality – a subset of risk

As statistical sampling began to wane in popularity, a discourse of risk management emerged in the 1990’s (Power, 2004) with the advent of a more risk based approach to auditing. Doubts had been cast upon accountants’ claims to be objective constructors of reality by the economic events and crises in the mid 1970’s and 1980’s (Sikka and Willmott, 1995) and new programmatic associations were forged by the accounting profession, perhaps in response to perceived audit failure (Power, 1997) between materiality, audit risk and the management of risk,

“There is an inverse relationship between materiality and the level of audit risk, that is, the higher the materiality level, the lower the audit risk and vice versa’ (ISA 320, paragraph 10).

A fresh metaphor was applied to materiality as a “subset of risk” (Millichamp and Taylor, 2007). A subset, in diagrammatical studies of logic, shows hypothetically logical relationships between a finite set or aggregation of things. A more complex allegorical diagram, depicting an inverse relationship between materiality, audit risk and audit evidence was adopted by Cosserat (2000, p. 215).

Materiality levels might be assigned to each component in the financial statements. (Walters and Dunn, 2001). Materiality thresholds during the audit also might change in response to new or additional evidence gathered that may cause initial assessments of materiality to be reconsidered (ISA 320). Finally, at the evaluation stage, the materiality of potential errors in individual components and financial statements as a whole must be evaluated (ISA, 320); Gray and Manson, 2008, p. 411).
In this context, the profession has sought to harness and promote the materiality concept as a professional instrument that responds, systematically, to risk and uncertainty within the audit process.

More recent events – the withdrawal of metaphor
Accountants and auditors in recent financial scandals have been pictured as materialistic rather than concerned with truth in materiality decisions, particularly following the Enron debacle, where misrepresentations, not deemed material, were nevertheless significant enough to bring about the demise of both the company and its auditors. The institutionalised focus of materiality in accounting and auditing standards has been criticised (Shaub, 2005). Similarly, materiality has been described as “Accounting’s best kept secret” (Brennan and Gray, 2005) because of a lack of transparency or disclosure about materiality thresholds.

The paper returns to the subject of the latest transition in statements about materiality, briefly mentioned at the start of the paper, where the materiality construct is being fundamentally repositioned. The IASB and FASB have been addressing differences between their conceptual frameworks in a joint project, and in so doing have reassessed the relationship between the characteristics of accounting information, including materiality. Both Concepts Statement 2 and the IASB Framework previously defined materiality similarly. However, the joint boards concluded that materiality is a pervasive constraint rather than a positive characteristic of financial reporting and is not a consideration for standard-setters because whether something (for example, an item misstated or omitted) is material can be assessed only in relation to an individual reporting entity’s situation (BC2.67, 2007). Both FASB and the American Accounting Association have suggested that the notion of
materiality is effectively redundant as a characteristic of accounting information (AAA, 2008).

Technical release IAASB 03/08 has strongly differentiated between accounting materiality (which is a matter for management) and auditing materiality. In turn, ISA 320, paragraph 2, has withdrawn any definition of materiality and instead refers to its characteristics,

“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.”

ISA 320 (paragraph 2) interestingly expands the notion of the mythical man to a group of investors, echoing traces of case law judgments (such as Caparo Industries plc v Dickman, 1990) in establishing practice boundaries around a professional duty of care to shareholders as a body but specifically excluding divergent individual needs,

7.

8. Rationality and materiality

A range of historically emergent conditions and factors have underpinned the existence and meaning of materiality. Many different powers, actors, organisations,
audit concepts and technologies have all played a part in the realisation and materialisation of the construct of accounting materiality over time. The history of the concept is integrally connected with different stages of development within and challenges to systems of professionalization.

It is the inherent pluralism and flexibility of accounting materiality (characteristics it shares with generic materiality) that has enabled the Profession to align the concept to a range of evolving, diverse professional objectives and priorities, in establishing a professional ideational lens associated with good judgment (phronesis, Francis, 1995), in defending the work of accountants from unreasonable criticism (users who are not prudent or rational investors), balancing economic viability and value for money with counteracting uncertainty in the audit process (a true and fair view), in promoting the work of accountants as mysterious and elitist, as a scientific tool or professional instrument associated with risk management. Underpinning these professional objectives, the concept is inherently qualitative and legalistic, rooted in a capitalist ethos.

At the same time, this utilitarian flexibility and pluralism has created difficulties in attempting to codify the concept in professional guidance. The profession has sought to assign formal, goal orientated rationality to materiality but this has been met with scepticism both from practitioners and academics because the concept lacks substantial rationality (Weber, 1968). The substantive ultimate goals of materiality are not transparent because they are multifaceted neither is it clear who the materiality concept serves. Olson (1968, p. 74) perhaps recognised this when he described materiality as a fine line between cutting off the accounting process and a focal point of controversy in “drawing the line” between client and management.
The pluralism of materiality is evident in the mixed imagery applied, including underpinning root metaphor (a child of law, the expectations of the mythical prudent investor), technical, cognitive metaphor that associates materiality in audit practices with an object or technical concept (a screen, threshold, cornerstone, tolerable error), with conceptual metaphor (a best kept secret, a black box), therapeutic metaphor hinting at a broader picture (part of the wisdom of life) and also paralogical metaphor such as the concept of beauty where there is no discernible logical point of reference.

The lack of satisfactory formal and substantial rationality may assist in explaining why empirical research suggests that it is infeasible to set a unique, fixed materiality standard. Institutionally derived materiality standards for certain accounting disclosures lack solid theoretical foundations (Ro, 1982).

Practical rationality accepts given realities and calculates the most expedient means of dealing with the difficulties they present (Kalberg, 1980) which perhaps for the guidance setters lies in describing the characteristics of materiality rather than a prescriptive framework or formal definition.

9. De(re)coding the materiality concept – interdisciplinary landscape metaphor

The paper at this point seeks to reflexively examine the framework of beliefs that we associate with materiality in accounting discourse. In so doing, the study draws upon insights and imagery from interdisciplinary studies of generic materiality.

Glimpses about the significance of deep links between accounting and generic materiality are hidden in discourse. Thomas and Krogstad observed that materiality was “nebulous” (1979, p. 74) and “multi dimensional” (1979, p. 77) and pointed to broader philosophical, legal and economic aspects of materiality in auditing,
“other notions of materiality are relevant in analytical review, in evaluation of internal control strengths and weaknesses in compliance testing, in selection and application of audit procedures in personnel assignments and even to time budget allocations to various aspects of the audit and in judging the sufficiency of evidence gathered”. The nuances of materiality judgements extend well beyond professional guidance, (Thomas and Krogstad, 1979, p. 77).

These comments portray materiality as a performance rather than a traditional phenomenon, where decision making can be interpreted as an extensive, complex network of actors, objects and agents. Audit manuals and professional guidance (as objects of agency), staff and time allocation systems, decisions about audit procedures and the consequences of interactions between actors and agents all affect the way in which materiality decision making is performed. Actor network theory has already been used to demonstrate that science is not as systematic as it may appear (Latour, 1979) and the same may apply to materiality decisions.

A theory of generic materiality specifically locates an understanding of materiality within a material habitus, in which a network of actors and material objects operates,

“A material habitus is an enmeshing that combines persons, objects …and all manner of immaterial things together in ways that cannot always be easily disentangled or separated taxonomically”, (Tylor 1977, p. 14).

The current genealogical study of accounting materiality has usefully identified an underpinning professional, legalistic and capitalist material habitus in which accounting materiality has been positioned and constructed, especially when compared, for example, with a different actor network and culture in the manifestation of materiality in CSR.
Of utmost importance in a theory of generic materiality is the notion that our subconscious perceptions about materiality act as frames that for the most part are unnoticed (Miller, 2005). Frishkoff (1970) alluded to such subliminal frames when he observed,

“The assumption that the item in question is in some sense material is implicit in every decision to render some event into a financial datum, to classify a transaction, to dispute some controversial accounting treatment. Thus, for every decision made in accounting there is a prior, often subconscious decision that the item in question is material. Else, why bother about it? (Frishkoff, 1970).

The less we are aware of a background, the more powerfully these frames can determine our expectations by prompting normative behaviour without being open to challenge (Miller, 2005). Much empirical research has tested auditor responses to cues, which in turn have been observed to be influenced by experience, but the way in which our behaviour may be subconsciously influenced or restricted by our own perceptions of accounting materiality, entrenched in a material habitus determined by systems of professionalization, may be an avenue for further empirical research.

Interestingly, continuing with the theme of imagery adopted in the study, metaphor and comparisons applied to materiality in interdisciplinary literature are conspicuously related to background frames and landscape in particular.

Dale (2005) has utilised a riparian metaphor to describe the mutual relationship between the construct of materiality and organisational behaviour to illustrate how this influences processes of control. If a material organisation/culture is viewed as a river bank and social processes in an organisation as the river, the current is deemed to carve and shape the river bank but more imperceptibly, the structure of
the river bank also affects the direction of the currents and plays a part in shaping the landscape. This may represent a more physical interpretation of materiality but accounting materiality is nevertheless ultimately a network of actors and agents concerned with translating the characteristics of interactions between actors and material objects into decision useful information.

Holmberg (2005) suggests that part of the paradox of materiality in science and academia is that we see a boulder and examine evidence in situ of volcanic origins but we do not see the volcano in the background. Our focus is always more on foreground than background. In techno-science, materiality is viewed not as a phenomenon but as a field of enquiry that may be restricted by the internal horizons of each investigator. Materiality depends in part on what people are willing or not willing to see (Ihde and Selinger, 2003).

Perhaps these different landscape metaphors may prompt further reflexion on the internal horizons of actors involved in materiality decision making and on systems of professionalization in constructing perceptions about accounting materiality. The professional accounting guidance perhaps retains an element of Cartesian dualism where the evaluation of an item “out there” is in light of surrounding circumstances. Placing material culture at the centre of an exploration of accounting materiality may open up opportunities to explore the concept of materiality as a vast actor network in a field of study that probes systems of control and behaviour in the materialisation of accounting inscriptions. This process has material consequences in every sense of the word.
10. Conclusion

This study attempts to explore the conditions and circumstances that have underpinned the existence and meaning of the construct of accounting materiality, from its inception. An analysis of discursive imagery and metaphor applied to the concept, points to the pluralistic, at times contradictory, nature of accounting materiality which has not developed in a rational, refined manner over time. The concept is the product of a range of historically emergent conditions and factors that have underpinned its existence and meaning. Many different powers, actors, organisations, audit concepts and technologies have all played a part in the materialisation of this inherently malleable construct.

It is the flexibility of accounting materiality (a characteristic shared with generic materiality) that has enabled the accounting profession to align or realign the concept as an ideational, professional lens to meet or respond to professional objectives, priorities and challenges, either externally imposed by symbolic legal power or internally derived, in attempting to balance good judgment with uncertainty in the audit process and practical utility (economic viability). Underpinning these professional objectives, the concept is inherently qualitative, legalistic and rooted in a capitalist ethos.

Drawing upon insights from interdisciplinary studies of an ancient, generic concept of materiality, a suggestion is developed that our perceptions of materiality are located in the context of a professional material habitus but equally, these frameworks may powerfully influence organisational behaviour and systems of control. Viewing materiality as a field of enquiry and probing the extent to which a professional material habitus, located at the centre of an understanding of materiality,
may restrict our perceptions of the construct and consequently what we are willing or
not willing to see, may prove to be a fruitful area for further empirical research.

Accounting materiality is perhaps one of the most iconic concepts associated
with audit judgment. The findings of a genealogy would suggest that rather than
having reached a saturation point in exploring the concept, a novel interdisciplinary
approach may be helpful in strengthening or recoding an understanding of the
concept. As Hicks (1964) observed, the materiality concept has always been
perceived as central in professional judgment,

“Of the future, few things can be said with certainty, but one of those things is
this: the work of the accountant, whether in public practice or private
employment, will continue to be notable for the frequency with which it
requires the exercise of judgment. And in no aspect of accounting is judgment
more important than in applying the concept of materiality”.

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The phrase “without history” does not imply that practitioners overlook recent changes in professional guidance or a wealth of literature on the subject. It is the more distant past that is referred to here. How did this concept first appear in accounting lexicons.

Indeed, the IASB and FASB are currently re-assessing essential relationships between materiality and other key accounting concepts such as relevance, reliability and usefulness.

Dale (2005) ’In Britain, our relationship with goods is almost entirely one of consumption. Even those directly engaged in industrial production are more likely to be immediately associated with a complex work process than with an identifiable product. Thus, we need to take a wider look at materiality than just that of specific 'goods' in order that we can understand the material aspects of these 'complex work processes’

Marx argues that reification is an inherent and necessary characteristic of economic value such as it manifests itself in market trade, i.e. the inversion in thought between object and subject, or between means and ends, reflects a real practice where attributes (properties, characteristics, features, powers) which exist only by virtue of a social relationship between people are treated as if they are the inherent, natural characteristics of things, or vice versa, attributes of inanimate things are treated as if they are attributes of human subjects.

As Flint (1988) observed, “Materiality in accounting is a matter of materiality in auditing because it identifies the data or information which affect the information content of the financial statement and which have the potential to affect the understanding and decisions of the persons to whom the data information or financial statement are prepared”.

“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” (ISA 320, 2010, para 2).

The late Latin noun ‘materialitas’ evolved, most notably in the ninth century, to refer to the material world as distinct from an immaterial realm of ‘spiritualitas’ (Wiseman, 2006). The term material first appeared in Old English, in fourteenth century scholastic philosophical and theological texts.

The pyramid remains a potent symbol to this day, for example in organisational and marketing theory.

Plato asserted that the realm of ideas (not the material world that we know by sensation) was the highest form of knowledge and reality.

Materialism and materiality are not interchangeable in meaning but are closely related. Rowlands (2005).

Dialectical Marxism, a strand of Marxist theory, has inverted the traditional platonic ideal/material dichotomy and posits that our ideas as human subjects are socially constructed and shaped by the material world around us (by the economic base or social relations of production).

And not simply to those that are linguistic This suggests: first that it shares something important with Michel Foucault’s work; second, that it may be usefully distinguished from those versions of post structuralism that attend to language and language alone.

Foucault has emphasised the importance of discourse in understanding the complex nature of the relationship between materiality (and the world around us), the acquisition of knowledge and the thinking subject. Foucault critiqued ideal/material dichotomies for failing to recognise the role of discourse in bridging the realms between the visible and invisible. Indeed, he situated discourse closely to materiality and power (Hook, 2001, p. 36). Foucault has in turn been critiqued for his idealistic, anti-materialism and yet his approach, if it implies some measure of praxis in the real world that takes place prior to discourse may perhaps bring us closer to bridging the gap between the visible (material world) and the acquisition of knowledge by the thinking subject (Hoskins, 1992). he situated discourse closely to materiality, knowledge and power (Hook, 2001, p. 36) and his approach, if it implies some measure of practice in the real world prior to discourse, may perhaps bring us closer to understanding how the gap between the visible, material world and the acquisition of knowledge is bridged (Hoskins, 1992).

References to diffusion literature need to be included perhaps by way of footnote

Wharton’s law-lexicon: forming an epitome of the law of England; and containing full explanations of the technical terms and phrases thereof, both ancient and modern. Including the various legal terms
used in commercial business; together with a translation of Latin law maxims, and selected titles from
the civil, Scotch, and Indian law (1883).

16 Lord Davey’s committee in updating the Companies Act 1985

17 Philosophers also pondered whether abstract notions possessed the quality of materiality (Locke,
1646).

18 Impressionism is a form of writing that selects thoughts, beliefs, emotions, significant associations
and events to convey meaning through imagery (Matz, 2001).

19 In the US courts, a legal concept of accounting materiality that reflects current developments in
professional guidance has gradually emerged within the specific remit of the Securities Acts
(Thomas and Bean, 1990) and so there has been some cross pollination in the evolution of the concept.
Interestingly, the understanding of materiality reflected in UK Law remains less visible and a more
pluralistic concept.

20 Bean and Thomas observed that accountants tended to traditionally view materiality quantitatively,
whereas the courts on a case by case basis have not always viewed magnitude as a controlling factor.
Their synthesis of judicial rulings concluded that lawyers viewed an item as material if the average
prudent investor would consider the information important in evaluating his course of action and called
to the accounting profession to consider realigning the concept along these lines.

21 This view is also advocated by The Fédération des Experts Comptables Européens (FEE), the
representative organisation for the accountancy profession in Europe (FEE, 2002).

22 Two levels of assurance are permitted by ISAE 3000 (reasonable assurance and a lower, limited level
of assurance). Materiality levels thus depend on the level of assurance and scope of the assurance
engagement agreed with the client and perceived assurance engagement risk. Interestingly, the
assurance provider may, but is not required to, discuss materiality in the assurance statement.

23 AccountAbility have formulated a five-part test (AccountAbility, 2003d) to assist company boards
and assured in determining materiality and what should be publicly disclosed. This test should
consider: policy based norms, business peer-based norms, stakeholder behaviour and concerns, societal
norms and direct short-term financial impacts.

24 The AccountAbility (2003b) guidance states that the materiality test should identify those aspects of
performance that relate to: compliance performance; policy-related performance; peer-based norms and
stakeholder-based materiality which includes stakeholder behaviour impact and stakeholder views and
perceptions. More recent guidance issued (AccountAbility, 2008) now refers to three AccountAbility
principles: the Foundation Principle of Inclusivity, the Principle of Materiality and the Principle of
Responsiveness.

25 He observed that differences between the book value and market value of marketable securities
progressed from being described as “so small as to be trifling” (Federal Reserve Board, 1917) to just
"small," (Federal reserve Board, 1929) then "substantial," (Federal Reserve Board 1936) and finally
"material".

26 In 1999, The Securities and Exchange Commission released a long-awaited Staff Accounting
Bulletin on materiality, reinforcing the notion that management must also consider qualitative factors.

27 There was also a perceived ‘trade off’ in SFAC 2 between reliability and relevance. If data were not
reliable, whether or not this was a material error might dependent on its relevance in a specific context,
with all qualities subject to a materiality threshold which served to ring-fence materiality as a matter of
experienced professional judgment.

28 However, Concepts Statement 2 describes materiality as a constraint on financial reporting that can
only be considered together with the qualitative characteristics, especially relevance and faithful
representation. The IAASB Framework, on the other hand, discusses materiality as an aspect of
relevance and does not indicate that materiality has a role in relation to the other qualitative
characteristics.