

SA320: Materiality In Planning And Performing An Audit

• Scope of this SA:

→ auditors responsibility to apply the concept of Materiality.

• Effective Date:

→ on or after April 1, 2010.

• Objective:

→ to apply the concept of materiality appropriately in planning & performing.

• Materiality in the context of an audit:

Financial reporting framework.
may discuss materiality in different terms, they generally explain that:

→ misstatements, individually or in aggregate, expected to influence the economic decision of users.

→ size or nature of a misstatement.

→ material to users based on a info. needs of users as a group.

The auditor's determination of materiality is a matter of professional judgement. & is affected by the auditor's perception. It is reasonable for an auditor to assume that users:

→ Have a reasonable knowledge of business & economic activities & accounting, & willingness to study the info in the FS.

→ understands that FS are prepared & audited to level of materiality.

→ Recognize the uncertainties inherent in the measurement of amount.

→ make reasonable economic decisions.

→ Concept of materiality is applied in planning & performing of audit & in evaluating an effect of identified misstatements.

→ size of ^{misstatement} material will be considered material if judgement provide a basis of:

- nature, timing & extent of RAP
- assessing the risk of MM.
- nature, timing & extent of FAP.

→ The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality level.

→ The auditor considers not only size but also the nature of uncorrected misstatements, & the particular circumstances of their occurrence.

• Requirements

→ Determining materiality & Performance materiality.

Materiality: There is one or more particular classes of transactions, account balances or disclosure for which misstatements of lesser amount than the materiality for the FS as a whole to be reasonably be expected to influence the economic decisions of users to be taken on basis of FS.

→ Revision of Audit Progresses.

→ May need to be revised as a change in circumstances, new info. or change in auditors understanding.

→ If the auditor concludes that a lower materiality for the FS as a whole than that initially determined is appropriate, shall determine whether it is necessary to revise performance materiality

• Documentation

→ Materiality → as a whole.

- for particular class of transactn,
- alc balance &
- disclosure.

→ Any revision therein.