SA 320 → Materiality in planning (&) performing audit.

Concept of materiality in the Context of audit.

(a) A discussion present in the FRF
- provides a reference to the auditor
- in determining materiality for the audit
- If FRF do not include a discussion ⇓ following can be referred.

① # Misstatements including omissions are Considered to be material if
- They
  - individually (or)
  - in aggregate
- expected to influence
  - the economic decisions of users of FST.

② # Judgements about materiality are.
- made in the light of Surrounding Circumstances
- And are affected by
  - size (or) nature of a misstatement
  - (or) Combination of both.

③ # Judgements about matters that are material to users of FST are
- based on a
  - Consideration of
  - Common financial Infⁿ needs of users as a group
- (&) not based on individual needs.

(b) The auditors determination of materiality is
- a matter of PJ
- and is affected by
  - auditors perception
  - of financial Infⁿ needs of users of FST.

(c) The Concept of materiality is applied by the auditor in.
- planning / performing → audit
- evaluating the effect of
  - Identified misstatements on audit.
  - uncorrected misstatements
- forming opinion in Auditors report.

(d) Judgement of materiality provides a basis for
- Determining.
  - NTE of RAP
  - NTE of FAP
- Identifying & assessing RMM.

Concept of P. materiality | Performance Materiality.
- The amt. (or) amounts
- Set by the auditor.
- at less than materiality for FST as a whole
- To
  - reduce to an appropriately low level
  - the probability that
    - the aggregate of uncorrected (or) undetected misstatements
    - exceeds materiality for FST as a whole.

If applicable, performance materiality also refers to.
- The amt. (or) amounts
- Set by the auditor
- at less than
  - the materiality levels (or)
  - Levels for
    - particular class of transactions.
    - A/C balances (or)
    - disclosures.

Determining materiality & performance materiality when planning the audit.

The auditor shall determine
- materiality as a whole — when stablishing overall audit strategy.
- materiality level (or) levels — to be applied to those
  - particular classes of transactions
  - A/C balances.
  - (or) disclosures.
- performance materiality for the purpose of
  - assessing RMM
  - determine NTE of FAP.

If
- in the Specific Circumstances of the entity
- There is one (or) more
  - particular classes of transactions
  - A/C. balances
  - (or) disclosures
- for which.
  - misstatements of lesser amt. than the materiality for FST as a whole
  - Could influence the economic decision of users taken on basis of FST.

Use of benchmark in determining materiality.

- # Determining materiality involves the exercise of PJ
- # A % is often applied to a chosen benchmark.
  - as a Starting point
  - in determining materiality for FST as a whole.
- # Factors that may affect the identity of appropriate benchmark include the following:
  1. The elements of FST.
     For e.g.
     - Assets
     - liabilities
     - equity
     - revenue
     - expenses.
  2. Whether
     - There are items
     - on which
       - the attentions of
       - the users of
       - FST of a particular entity
       - tends to be focused.

     for e.g =>
     - For the purpose of evaluating financial performance
     - users may tend to focus on
       - profit
       - Revenue (or)
       - net assets.
  3. The nature of the entity, Where the entity is
     - at its life cycle
     - And the
       - Industry
       - economic environment

       in which it operates.
  4. The entity's ownership structure
  5. The relative volatility of the benchmark.

Revision as the audit progresses.

The auditor shall revise
- materiality for FST as a whole
- and if applicable the materiality level (or) levels for
  - particular classes of transactions
  - A/C balances
  - (or) disclosures.
- in the event of becoming aware of Infn during the audit
- that would have Caused the auditor to have determined a different amt. initially.

(P.T.O)

If the auditor Concludes that lower

materiality for FST as a whole

(&) if applicable materiality level (or) levels for
- particular class of transactions
- A/C balances
- (or) disclosures

than that initially determined is appropriate

The auditor shall determine whether

(i) it is necessary to revise performance materiality

(ii) The NTE of FAP remain appropriate.

Audit planning (&) materiality.

materiality

is an imp Consideration for an auditor

to evaluate whether the FST reflects True (or) fair view (or) not

SA 320 requires that an auditor should

Consider.
- materiality
- (&) its relationship with audit risk

while Conducting an audit.

when planning the audit.

The auditor Considers what would make the financial infⁿ materially Misstated.

The auditors preliminary
- assessment of materiality
- related to
  - specific A/C balances
  - (&) classes of transactions.

helps the auditor to decide such Questions as
- what items to examine
- (&) whether to use
  - sampling
  - (&) analytical procedures.

This enable the auditor

to select audit procedures

that in Combination.
- can be expected to support the audit opinion
- at an acceptably low degree of audit risk.

It may be noted that

the auditors assessment of
- materiality
- (&) audit risk

may be diffⁿ

at the time of initially planning audit

against the time of evaluating the results of audit procedures

Materiality and audit risk

In Conducting an audit of FST the overall objective of the auditor are

- to obtain reasonable assurance.
- about whether
  - FST as a whole are
    - free from material misstatement
    - whether due to fraud (or) error
  - Thereby enabling the auditor to.
    - express an opinion
      - on whether FST are prepared in all material respect
      - in accordance with AFRF.
    - And to
      - report on FST
      - (4) Communicate as required by SA
      - in accordance with auditors finding.

The auditor obtains reasonable assurance

- by obtaining SAAE
- to reduce audit risk to an acceptably low level

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Audit risk is

- is Risk that
  - auditor expresses an inappropriate audit opinion
  - when the FST are materially misstated.
- is a function of risks of
  - material misstatement
  - (&)
  - detection risk.

Materiality (&) audit risk are Considered throughout the audit in particular when

- (i) identifying (&) Assessing RMM
- (ii) Determine NTE of FAP
- (iii) Evaluating the effect of Uncorrected misstatements if any on FST (&) in forming opinion in AR.