



**Working Group on
Financial Audit Guidelines**

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**Subject: Proposed Revisions to International Standard on Auditing
No. 320 - Materiality in the Identification and Evaluation of
Misstatements**

This letter provides the comments of the Working Group on Financial Audit Guidelines of the International Organization of Supreme Audit Institutions (INTOSAI) on the proposed revisions to International Standard on Auditing (ISA) No. 320 - *Materiality in the Identification and Evaluation of Misstatements*, issued December 2004. The Working group on Financial Audit Guidelines comprise of experts from the Supreme Audit Institutions of Canada, Cameroon, Namibia, Norway, United States, United Kingdom and Sweden and the comments reflect the opinion of the experts. The Working group also encourages the respective Supreme Audit Institutions to provide comments to proposed International Standards of Auditing.

We commend the International Auditing and Assurance Board (IAASB) for its proposal to enhance the current standard by adding: (1) a heightened emphasis on considering the relevant nature and circumstances in addition to size when determining materiality and evaluating misstatements, (2) the increased emphasis on considering potential management bias, and (3) the emphasis on qualitative issues that may cause the auditor to evaluate some identified misstatements as material even if they are below the materiality level. We also support the analytical framework provided to the auditor in the section on determining materiality when planning the audit and the section on evaluating uncorrected misstatements.

Overall, we support the proposed standard. The enclosure to this letter contains the INTOSAI Working Group's suggestions for adding clarity and rigor to the provisions of the proposed standard listed below. While we are offering comments specifically geared towards public sector audits, we are also offering suggested

changes to the proposed standard that would strengthen audits in both the private and public sectors.¹

- Format for Public Sector Perspectives
- Add Public Sector Perspective to Introduction (in or after paragraph 3)
- Nature and Causes of Misstatements (paragraph 4)
- Materiality in the Context of an Audit (paragraph 6)
- Clarify Characteristics of Users (paragraphs 8 – 9)
- Use of Percentages of Benchmarks (paragraphs 13 – 14)
- Tolerable Error (paragraph 20)
- Considerations as the Audit Progresses (paragraph 26)
- Evaluating the Effect of Uncorrected Misstatements (paragraph 35)
- Evaluating Whether the Financial Statements as a Whole are Free of Material Misstatement (after paragraph 40)
- Documentation (paragraphs 45 and 46)

Please note that throughout this document, our suggested additions are indicated with underlined text.

We thank you for considering our comments on this important standard, and we welcome the opportunity to work with the IAASB to develop globally accepted auditing standards for use in both the public and private sectors.

Sincerely yours,



Kjell Larsson
Auditor General

The Working Group on Financial Audit Guidelines

Enclosure

¹In the future, INTOSAI Working Group may supplement this ISA with a practice note to provide supplemental guidance on implementing this standard in the public sector.