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Description of content of ISSAI 1320

Materiality in Planning and Performing an Audit

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1320 is comprised of International Standard on Auditing (ISA) 320 – Materiality in Planning and Performing an Audit, and a corresponding Practice Note. The ISA and the Practice Note are read together.

Authority

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

Description of the ISA

ISA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. ISA 450¹ explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Objective of the auditor in terms of the ISA

The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

Among other matters, the requirements in this ISA deal with:

- a. Determining materiality for the financial statements as a whole when establishing the overall audit strategy and, if necessary, determining the materiality level(s) to be applied to particular classes of transactions, account balances or disclosures.

¹ ISA 450, Evaluation of Misstatements Identified during the Audit.

- b. The need to determine 'performance materiality' for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Performance materiality is defined as the amount(s) set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds determined materiality.
- c. The need to revise materiality in the event of becoming aware of additional information during the audit.
- d. Audit documentation requirements in relation to materiality.

Description of the Practice Note

The Practice Note provides supplementary guidance for auditors applying ISA 320 when conducting financial audits of public sector entities.

Content of the Practice Note

The Practice Note provides additional guidance for public sector auditors related to:

- a. Overall considerations related to additional objectives or public expectations when determining materiality.
- b. Materiality in the context of an audit.
- c. Determining materiality and performance materiality when planning the audit.
- d. Revision as the audit progresses.