

SA 320: Materiality in Planning & Performing an Audit

How to calculate materiality (F.S.)?

Reliance Uel. Profit $\text{€}1000000 \times 5\%$ \Rightarrow $\text{€}50000$ F.S. materiality

Benchmark
Basis?
• P.J. ✓
• firm's guidance ✓
• R.O.M.M. ✓

↓?
Misstatement ≥ 50000
↓
Influence con. decisions of users of F.S.

II. "Particular A, B, C, D"

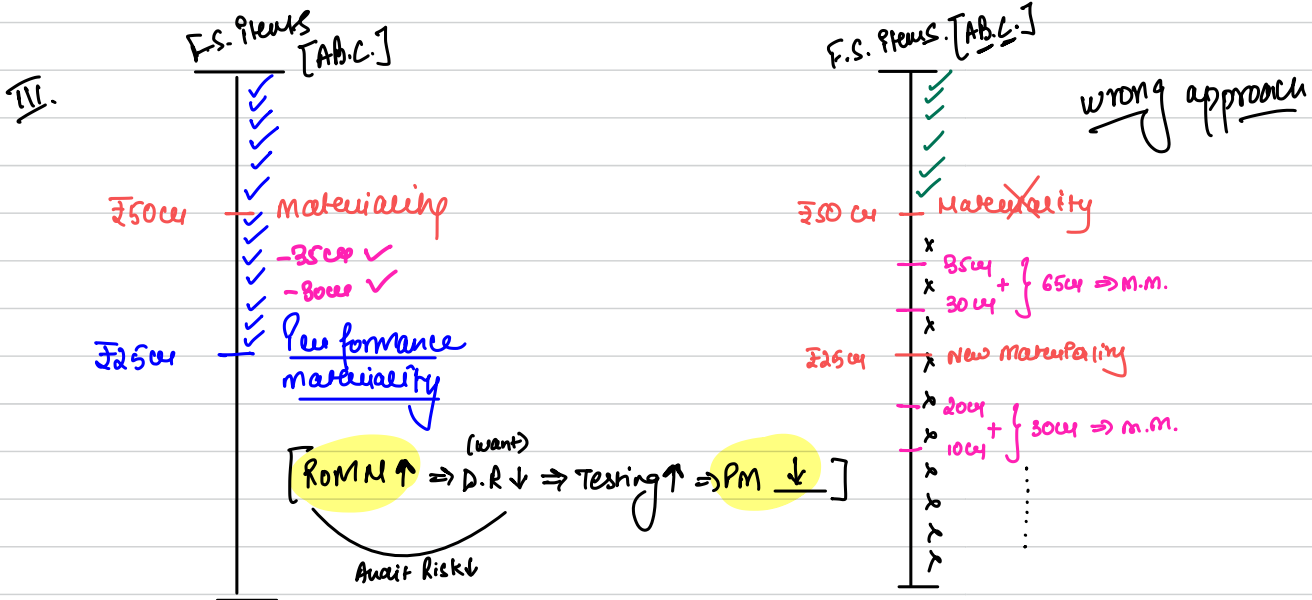
• IIo 'Telecom license' (Intangible Asset)

\Rightarrow $\text{€}20000$

Misstatement $\text{€}15000 \Rightarrow$ Influence user?
Yes

Also material

For this 'G.A.' \Rightarrow determine 'lower materiality' than F.S. materiality ($\text{€}50000$)
[A, B, C, D]



eg:	F.S.	Particular A, B, C, D
Materiality	$\text{€}50000 \rightarrow 50000$	$\text{€}50000$
Performance Materiality (P.M.)	$\text{€}25000$	$\text{€}70000$ } Assumed

Determining Materiality & Performance Materiality

- ① When establishing audit strategy, determine materiality for F.S. as whole.
- ② If there's one/more particular A.B.C.D. for which misstatements of lower amount than F.S. materiality can influence econ. decisions of F.S. users, also determine materiality for such A.B.C.D.
- ③ Determine performance materiality (P.M.) for assessing (high) ROM & determine NTE of FAP. (More testing).

Revision of Materiality [F.S. / A.B.C.D.]

↓?

On becoming aware of info. ^{*} during audit,
 of which initially auditor could have determined different materiality.

Reasons^{*}

a. Change in circumstances during audit.

eg. Decision to dispose major business.

users attention (material)

b. Change in auditor's understanding of entity & operations
 ↓
 as a result of F.A.P.

eg. Tolls → Contracts are weak ⇒ CRT (ROM) ↓ (want?)
 ↓ materiality ← Testing ↑ ← D.R ↓

c. New info.

eg. Actual financial results are substantially different from anticipated results.

Profit	Draft F.S.	Actual
Materiality 5%	100M	60M
	5M	3M
	Revision	



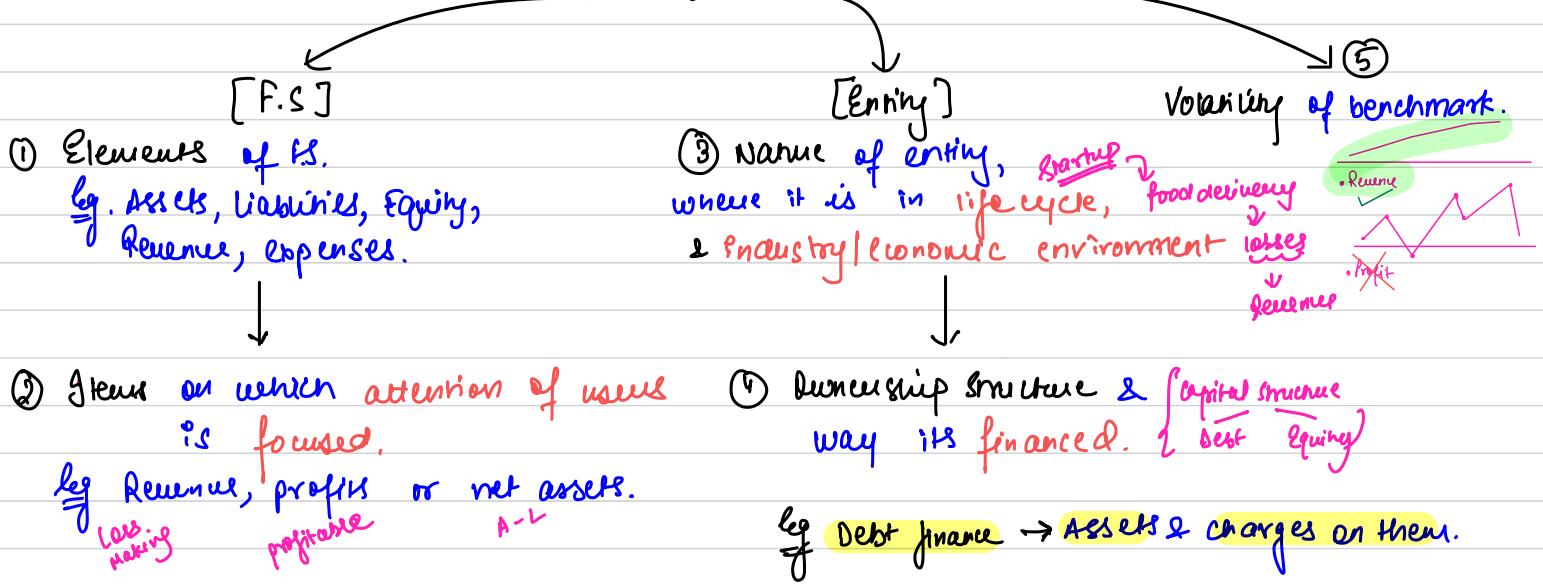
Conclusion: If auditor concludes lower materiality for F.S./A.B.C.D., then determine revision of P.M. & NTE of FAP.

2min

Benchmark

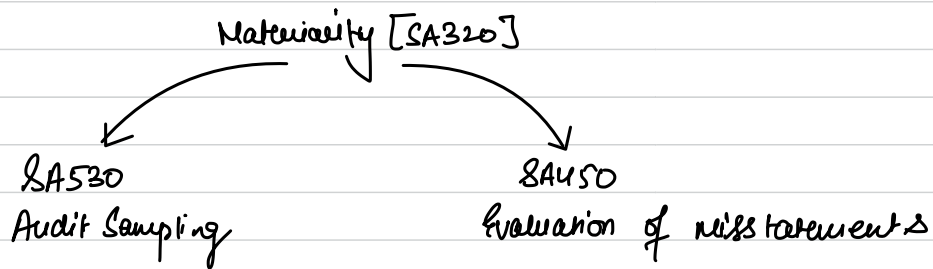
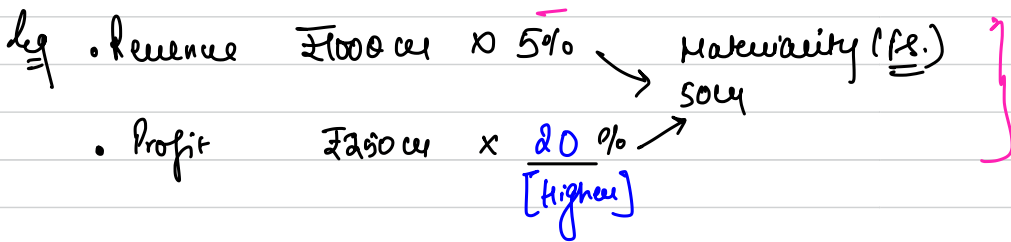
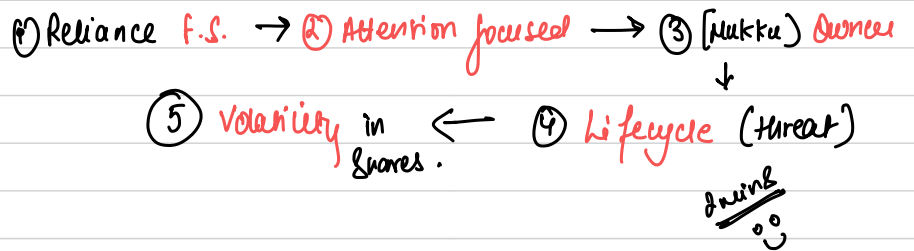
Percentage is applied to benchmark for determining FS. materiality.

'Factors' to identify benchmark:



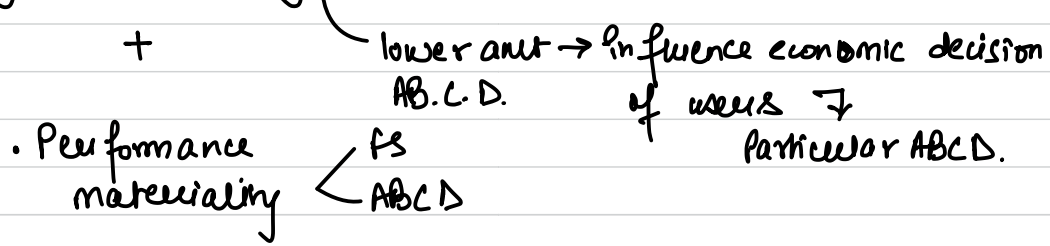
Mr. Mukesh [Mukesh Ambani]

Benchmark



SA 320: Materiality in \rightarrow Planning & \rightarrow Performing the Audit

1. Types of materiality • materiality - fs. as whole



2. Revision of materiality: Become aware of info* \rightarrow known initially \downarrow determined different materiality

- * : CHANGE $\left\{ \begin{array}{l} \text{in circumstances} \\ \text{Auditor's understanding of Entity} \end{array} \right. \rightarrow$ Result of FAP.
- New info. [Actual fs different from draft]

\Rightarrow If auditor \rightarrow concludes lower materiality [fs/ABCD] \rightarrow Revise $\left\{ \begin{array}{l} \text{PM} \\ \text{NTE of FAP.} \end{array} \right.$

3. factors \rightarrow Decide Benchmark

• Elements of fs \rightarrow users attention focused \rightarrow ownership structure & way its financed

variability of benchmark \leftarrow Nature of Entity + lifecycle

- Profit: PBT
- Loss / variable profit: G.P. / Revenue
- Public utility projects: Total/net costs.
- custody of Assets: Assets