

**CONFORMING AMENDMENTS TO OTHER ISAs AS A RESULT OF ISA 320
(REVISED AND REDRAFTED), MATERIALITY IN PLANNING AND
PERFORMING AN AUDIT**

ISA 230 (Redrafted), “Audit Documentation”

A17. ... Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality determined in accordance with ISA 320 (Revised and Redrafted),¹ assessed risks, significant matters noted during the audit, and conclusions reached.

ISA 260 (Revised and Redrafted), “Communication with Those Charged with Governance”

A15. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor’s work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures ...

A17. Matters communicated may include: ...

- The application of the concept of materiality in the context of an audit.

ISA 300 (Redrafted), “Planning an Audit of Financial Statements”

Appendix

Considerations in Establishing the Overall Audit Strategy

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- The determination of ~~appropriate materiality levels in accordance with ISA 320 (Revised and Redrafted)~~,² and, where applicable including:
 - ~~○ Setting materiality for planning purposes.~~
 - Setting Determination of materiality for components and communicationg materiality for thereof to component auditors of components in accordance with ISA 600 (Revised and Redrafted).³
 - ~~○ Reconsidering materiality as audit procedures are performed during the course of the audit.~~

¹ ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.”

² ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.”

³ ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors),” paragraphs 21-23 and 40(c).

- Preliminary identification of ~~material~~ significant components and material classes of transactions, account balances and disclosures.

ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment”

A1. ... The understanding establishes a frame of reference within which the auditor plans to audit and exercise professional judgment throughout the audit, for example, when: ...

- ~~Establishing~~ Determining materiality in accordance with ISA 320 (Revised and Redrafted) ~~and evaluating whether the judgment about materiality remains appropriate as the audit progresses;~~⁴ ...

ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”

A94. Ordinarily, a range that has been narrowed to be equal to or less than ~~the amount lower than the materiality level for the financial statements as a whole determined for purposes of assessing risks of material misstatement, and designing further audit procedures~~ performance materiality is adequate for the purposes of evaluating the reasonableness of management’s point estimate ...

A122. ... The auditor’s evaluation of the adequacy of disclosure of estimation uncertainty increases in importance the greater the range of possible outcomes of the accounting estimate is in relation to materiality (see related discussion in paragraph A9594).

ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)”

9. For purposes of the ISAs, the following terms have the meanings attributed below: ...
 - (d) Component materiality – ~~The materiality level~~ for a component determined by the group engagement team ...
21. The group engagement team shall determine the following: (Ref: Para. A42)
 - (a) ~~The m~~Materiality level for the group financial statements as a whole when establishing the overall group audit strategy.
 - (b) ~~Whether, If~~ in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than ~~the materiality level~~ for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements. ~~In such circumstances, the group engagement team shall determine~~ the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

⁴ ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.”

- (c) Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce to an appropriately low level ~~the risk probability~~ that the aggregate of ~~detected uncorrected~~ and undetected misstatements in the group financial statements exceeds ~~the materiality level~~ for the group financial statements as a whole, component materiality shall be lower than ~~the materiality level~~ for the group financial statements as a whole. (Ref: Para. A43-A44)
 - (d) The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. (Ref: Para. A45)
22. Where component auditors will perform an audit for purposes of the group audit, the group engagement team shall evaluate the appropriateness of ~~the amount or amounts lower than the component materiality level (and the amount or amounts lower than the materiality level for particular classes of transactions, account balances or disclosures, if applicable)~~ performance materiality determined ~~for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks~~ at the component level. (Ref: Para. A46)
23. When a component is subject to audit by statute, regulation or other reason, and the group engagement team decides to use that audit to provide audit evidence for the group audit, the group engagement team shall determine whether:
- (a) ~~the materiality level determined~~ for the component financial statements as a whole; and
 - (b) ~~the lower amounts determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks~~ performance materiality at the component level
- meet the requirements of this ISA.
40. The group engagement team shall communicate its requirements to the component auditor on a timely basis. This communication shall set out the work to be performed, the use to be made of that work, and the form and content of the component auditor's communication with the group engagement team. (Ref: Para. A57, A58, A60) It shall also include the following: ...
- (c) In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, ~~the amount or amounts lower than the materiality level or levels~~ for particular classes of transactions, account balances or disclosures, ~~if applicable~~) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements ...
- A42. The auditor is required:
- (a) When establishing the overall audit strategy, to determine:
 - (i) ~~a m~~Materiality level for the financial statements as a whole; and
 - (ii) ~~(b) When establishing the overall audit strategy, to consider whether~~If, in the specific circumstances of the entity, there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than ~~the materiality level~~ for the financial statements as a whole could reasonably be

expected to influence the economic decisions of users taken on the basis of the financial statements. ~~In such circumstances, the auditor determines the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures; and~~

- (eb) ~~To determine one or more amounts lower than the materiality level for the financial statements as a whole for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks performance materiality.~~

In the context of a group audit, materiality ~~levels are~~ is established for both the group financial statements as a whole, and for the financial information of the components. ~~The m~~Materiality level for the group financial statements as a whole is used when establishing the overall group audit strategy.

- A43. ~~To reduce to an appropriately low level the risk probability that the aggregate of detected uncorrected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, the component materiality level is set lower than the group materiality level for the group financial statements as a whole. Different component materiality levels may be established for different components. The eComponent materiality level need not be an arithmetical portion of the group materiality level for the group financial statements as a whole and, consequently, the aggregate of the component materiality levels for the different components may exceed the group materiality level for the group financial statements as a whole. The eComponent materiality level is used when establishing the overall audit strategy for a component.~~
- A44. ~~Component materiality levels are~~ is determined for those components whose financial information will be audited or reviewed as part of the group audit in accordance with paragraphs 26, 27(a) and 29. Component materiality is used by the component auditor to evaluate whether uncorrected detected misstatements are material, individually or in the aggregate.
- A45. A threshold for misstatements is determined in addition to ~~the component materiality levels~~. Misstatements identified in the financial information of the component that are above the threshold for misstatements are communicated to the group engagement team.
- A46. In the case of an audit of the financial information of a component, the component auditor (or group engagement team) determines ~~one or more amounts lower than the component materiality level for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks performance materiality at the component level. This is necessary to reduce to an appropriately low level the risk probability that the aggregate of detected uncorrected and undetected misstatements in the financial information of the component exceeds the component materiality level. In practice, the group engagement team may set component materiality at this lower level. Where this is the case, the component auditor uses component materiality for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks as well as for evaluating whether detected misstatements are material individually or in the aggregate.~~

Appendix 5

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this ISA to be communicated to the component auditor are shown in italicized text.

Matters that are relevant to the planning of the work of the component auditor: ...

- *In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures), and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements ...*