

ASA 320
(October 2009)

Explanatory Statement

ASA 320 Materiality in Planning and Performing an Audit

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Explanatory Statement ASA 320 *Materiality in Planning and Performing an Audit*

Reasons for Issuing Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard confirms with ISA 320 *Materiality in Planning and Performing an Audit*.

Operative Date

ASA 320 *Materiality in Planning and Performing an Audit* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to auditors regarding their responsibility to apply the concept of materiality in planning and performing an audit of a financial report.

Explanatory Statement ASA 320 *Materiality in Planning and Performing an Audit*

Main Features

The Auditing Standard requires the auditor to:

- (a) exercise professional judgement to determine materiality (including performance materiality) when planning the audit;
- (b) revise materiality as the audit progresses if the auditor considers it necessary; and
- (c) document the factors used by the auditor in determining or revising materiality.

Preamble and Overall Objectives

ASA 320 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 320 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;

Explanatory Statement ASA 320 *Materiality in Planning and Performing an Audit*

- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 17/08 *Proposed Auditing Standard: Materiality in Planning and Performing an Audit* (Re-issuance of ASA 320), was issued on 10 November 2008 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A *Regulatory Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in "clarity" format, including ASA 320 *Materiality in Planning and Performing an Audit*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by

Explanatory Statement ASA 320 *Materiality in Planning and Performing an Audit*

stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

Main Differences from ASA 320 *Materiality and Audit Adjustments* (April 2006)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 320 *Materiality and Audit Adjustments* (April 2006), are:

1. Auditing Standard ASA 320 is written in the “clarity” format using the equivalent International Standard on Auditing (ISA 320 *Materiality in Planning and Performing an Audit*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The extant Auditing Standard contains additional mandatory obligations and guidance paragraphs dealing with the auditor’s evaluation of misstatements identified during the audit. These mandatory obligations and guidance paragraphs are now incorporated into a new Auditing Standard, ASA 450 *Evaluation of Misstatements Identified during the Audit*.
3. The following requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard:
 - (a) If the auditor concludes that a lower materiality for the financial report as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate. (Ref: Para. 13)
 - (b) The auditor shall include in the audit documentation the following amounts and the factors considered in their determination:
 - (i) Materiality for the financial report as a whole (see paragraph 10 of this Auditing Standard);

Explanatory Statement ASA 320 *Materiality in Planning and Performing an Audit*

- (ii) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10 of this Auditing Standard);
 - (iii) Performance materiality (see paragraph 11 of this Auditing Standard); and
 - (iv) Any revision of (a)-(c) as the audit progressed (see paragraphs 12-13 of this Auditing Standard). (Ref: Para. 14)
4. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
5. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
6. Application and other explanatory material, linked to the additional requirements listed at 3. above is also included in the Auditing Standard.