

**Materiality in the Identification and Evaluation of Misstatements****Proposed revisions to IAPS, “The Audit of Group Financial Statements”**

*Note to IAASB: The following is a mark-up of proposed conforming changes to the section on Materiality in the exposure draft of IAPS, “The Audit of Group Financial Statements”.*

**Materiality**

28. ISA 320, “Audit Materiality in the Identification and Evaluation of Misstatements” contains standards and guidance on materiality, its relationship with audit risk and the evaluation of misstatements. The group auditor establishes a group materiality level to evaluate the effect of misstatements of the components’ financial information and the consolidation on the group financial statements. The group materiality level is based on the group financial statements.
29. The group auditor also determines the materiality levels to be used for group reporting purposes when performing work on the components’ financial information. The group auditor’s determination of materiality levels for individual components is a matter of professional judgment and may be affected by factors such as:
- The structure of the group (for example the number of components and their individual financial significance);
  - Whether a component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements; and
  - Group wide controls (which may affect the auditor’s evaluation of the expected level of misstatements in components).
- For group reporting purposes, the materiality level of a component cannot be higher than group materiality and, to allow for the aggregation of identified misstatements and the possible existence of undetected misstatements, ordinarily is lower.
30. When planning audit procedures for a component for group reporting purposes, the component auditor ordinarily establishes levels of tolerable misstatement (for assessing the risks of material misstatement at the assertion level and designing and performing further audit procedures to respond to those assessed risks) and tolerable error (for planning tests of details) lower than the component materiality level to allow for the aggregation of identified misstatements and the possible existence of undetected misstatements.
31. Where the work on a component will be performed by a related auditor or other auditor, the group auditor communicates the materiality level determined by the group auditor for the component. The group auditor also communicates a threshold below which misstatements are regarded as clearly inconsequential and, as a result, need not be communicated to the group auditor.

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