Acceptance and Continuance (A&C)

October 2025

A&C Form

- Let's visit the A&C Form available in Odoo.

Materiality

October 2025

Agenda

- Understanding concept of materiality
- Types of materiality
- Materiality considerations
- Materiality template
- Practical scenarios practice
- Materiality in group audits

Concept of materiality

Question

Which auditing standard relates to materiality?

Answer

ISA 320 - Materiality

Materiality

Materiality refers to the magnitude of misstatements that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

These can be numerical misstatements and/or omissions from financial statements affecting the decision making ability of users.

Purpose of materiality

It is one of the key judgments on the audit, and:

- impacts our identification and assessment of risks of material misstatement;
- impacts the nature, timing and extent of our audit procedures to address identified risks; and
- allows the auditor to evaluate the effect of identified and uncorrected misstatements, if any, on the audit, on the financial statements and in forming the opinion in the auditor's report.

Types of materiality

Question

What are different types of materiality?

Answer

- **Overall materiality** — Our assessment of materiality at the overall financial statement level
- **Performance materiality** — Materiality for the purpose of assessing the risk of material misstatement and determining the nature, timing and extent of audit procedures
- **Clearly trivial** — Amount below which misstatements are considered to be clearly trivial and therefore need not be accumulated.
- **Specific materiality** — Materiality for particular items of lesser amounts than overall materiality

Materiality Considerations

Benchmarks

1.4.2. Guideline percentage ranges of benchmarks when setting materiality

The benchmarks below are in no order of preference or importance. The benchmark selected must be entity specific.

Primary Benchmarks	Benchmark Ranges for Public Interest Entities (PIE'S) only	Benchmark Ranges for all other entities, excluding PIE's
Profit before tax	5% - 7%	5% - 10%
Gross assets	0.5% - 2%	0.5% – 3%
Gross revenue	0.5% - 2%	0.5% - 3%
Gross expenditure	0.5% - 2%	0.5% - 3%
Net asset value / Equity	1% - 3%	1% - 5%

Factors to be considered

- Ownership structure (public vs. private).
- Identification of users of financial statements
- User focus
- Industry/ nature of operations
- Stability of operations and volatility of earnings.
- Stage of development (startup vs. mature entity).
- Financing structure
- History of prior year misstatements

Materiality Template

PKF antares

Materiality Template

- Let’s visit the excel materiality template used for PKF audits

Practical scenarios practice

Scenario # 1

Entity: A Private SaaS startup reinvesting heavily in development, currently operating at a loss.

Key Financials:
Revenue: $10 million
Net loss: ($1 million)
Total assets: $5 million
Operations are being financed by shareholders. No external debt obtained.

Factors to consider:
Benchmark:
Rationale:

Scenario # 2

Entity: A mid-sized manufacturing public company with stable profits and consistent operations. Financing comes from equity and external debt. Debts covenants are being consistently met.

Key Financials:
Revenue: $50 million
Profit before tax: $3 million
Total assets: $25 million

Factors to consider:
Benchmark:
Rationale:

Scenario # 3

Entity: Charity providing community healthcare programs. Obtains funds from government programs and limited private funding from organisations.

Key Financials:
Total revenue: $8 million
Total expenses: $7.8 million
Surplus: $200,000

Factors to consider:
Benchmark:
Rationale:

Scenario # 4

Entity: A mid-sized manufacturing public company with unstable profits. Company has debt financing but able to meet/ renegotiate debt covenants.

Key Financials:
Revenue: $15 million
Loss before tax: $3 million
Total assets: $25 million

Factors to consider:
Benchmark:
Rationale:

Group materiality

Auditor responsibility

When performing group audits in which there are significant components to be audited by other audit firm/ team - a.k.a Component auditors, it is the responsibility of the group auditor to determine the materiality not only at the group level but also the component level. This would require:

(a) **overall materiality** for the group financial statements;

(b) **performance materiality** for the group financial statements;

(c) **lower specific materiality levels** for particular classes of transactions, account balances or disclosures in the group financial statements;

(d) **group triviality** – the amount above which misstatements cannot be regarded as clearly trivial to the group financial statements;

(e) **component performance materiality** for each of the components where audit procedures are to be performed on financial information in relation to a component that is disaggregated; and

(f) **component triviality** – the amount above which misstatements identified in the component financial information are to be communicated to the group auditor. Misstatements below this amount would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Component materiality: aggregation risk

ISA600R specifies that to address aggregation risk, the component performance materiality shall be lower than group performance materiality.

As the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. The group audit team will consider the extent of disaggregation of the financial information across components and the expectations about the nature, frequency, and magnitude of misstatements in the component financial information.

In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group.

Determining group materiality

Let’s refer to PKF materiality guidance for further guidance and practical example of determination of component materiality.

Further considerations

- Classes of transactions, disclosures can have specific materiality levels assigned to them.
- When using interim number (9months etc) for calculation of materiality, they need to be first extrapolated to annual numbers.
- Materiality levels calculated at planning level - need to be revisited at finalisation after posting of SUDs. Any changes will require communication to management (for public companies), updating all working papers, reevaluating remaining SUD items if they require to be posted, if the materiality level was reduced - re-evaluation of previously identified misstatements that were not included in SUD.
- Depending on specific circumstance of the engagement, the audit team may need to define a disclosure materiality to identify any misstatements / omissions in disclosures.
- Qualitative and Quantitative factors need to be considered when evaluating materiality levels and a revision may be required based on results of procedures performed during engagement.
- When calculating the materiality for a REVIEW engagement, determination of performance materiality is not required. Triviality is to be based on overall materiality.

Evaluating the Effect of Uncorrected Misstatements

Determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, consider:

(a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and

(b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Any questions?

Thank you

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