Materiality

FASB

- FASB: SFAC (1980) – what makes a difference for a F/S user
- Qualitative and quantitative
- Not explicit – all the facts / experienced human judgment

AICPA

- 1983 – Important for fair presentation of financial statements – audit report “in all material respects”
- Misstatements – individually or in the aggregate
- Planning – cover matters that could be material to the F/S
- Misstatements – errors (types?) or fraud (intent)

Determining Materiality

- Matter of professional judgment
- User needs (FASB)
- Base
- Sliding scale
- Tolerable misstatement

Using Materiality

- Audit Process
  - SOX 404
  - A/P – evaluating differences
  - NSTE - What to test, what procedures, who should perform them, interim or FYE, sampling, budget
- Audit adjustments
  - Errors and fraud
  - Qualitatively material (instances?)

Thoughts

- Should guidance concerning materiality be more explicit?
- Can a juror contemplate several million dollars being “immaterial?”
- Document in audit report? Information content? Convergence?