

AG ISA (NZ) 320

The Auditor-General's Statement on
Materiality in Planning and Performing
an Annual Audit



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Introduction

At a glance

The standard expands on the [underlying standard ISA \(NZ\) 320 \(XRB website\)](#) in that:

- you need to apply the Auditor-General’s definition of “material” (see paragraph 5);
- you need to refer to the materiality considerations in other Auditor-General’s Auditing Standards, where applicable;
- you need to use an appropriate materiality base depending on whether the public entity is a “public benefit entity” or a “for profit entity”; and
- you need to report all issues related to effectiveness and efficiency, compliance with laws and regulations, waste, and lack of probity or financial prudence to the Sector Manager (unless trivial or inconsequential).

Scope of this Statement

1. This Auditor-General’s Auditing Statement:
 - (a) establishes the Auditor-General’s requirements in relation to ISA (NZ) 320: *Materiality in Planning and Performing an Audit* (ISA (NZ) 320);¹ and
 - (b) provides additional guidance to reflect the public sector perspective.

Application

2. Compliance with this Statement is mandatory for Appointed Auditors who carry out annual audits on behalf of the Auditor-General. This Statement requires compliance with the requirements of ISA (NZ) 320, in the context of the varying nature of public entities, and the additional requirements included in this Statement.
3. This Statement applies to audits of financial statements and/or performance information that have been prepared for reporting periods beginning on or after 1 April 2023.

Objective

4. The objective of the Appointed Auditor is to apply the concept of materiality appropriately and to reflect the public sector perspective in planning and performing the annual audit.

¹ The ISA (NZ) Auditing Standards are scoped so that they apply to audits of “historical financial information”. However, for the purposes of the Auditor-General’s Auditing Standards and Statements, all references to “historical financial information” should be read as the audit of “historical financial and historical performance information”.

Definitions

5. For the purpose of this Auditor-General's Auditing Statement, the defined terms listed below have the following meanings:

Appointed Auditor

means the person or persons appointed by the Auditor-General to carry out the annual audit or other engagement on behalf of the Auditor-General, and who are supported by other members of the audit team. Where an Auditor-General's Statement or Standard expressly intends that a requirement be fulfilled by the Appointed Auditor personally, the requirement will indicate that the Appointed Auditor shall personally satisfy the requirement.

Material

means, for the purposes of forming an opinion on a public entity's financial and performance information, a statement, omission, fact, or item of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial and performance information is completed, could reasonably be expected to influence readers' overall understanding of the financial statements and performance information in making decisions or assessments about the stewardship and allocation of resources and the performance of the public entity.

Requirements

Materiality to be applied to the annual audit of financial and performance information

6. The Appointed Auditor shall consider whether a statement, omission, fact, or item is material when planning and performing the annual audit of the financial and performance information prepared by an entity. The consideration of materiality by the Appointed Auditor shall be taken from several perspectives as follows:
- (a) The Appointed Auditor shall apply the general definition of "material", in paragraph 5 of this Statement, as the overall test of whether a statement, omission, fact, or item is material when planning and performing the annual audit of an entity's financial and performance information.
 - (b) If an entity prepares performance reports for audit, the Appointed Auditor shall apply the materiality requirements of [AG-4: The Audit of Performance Reports](#).

- (c) In considering the laws and regulations that apply to an entity, the Appointed Auditor shall take into account:
- The objectives of paragraph 8 of [AG ISA \(NZ\) 250 \(Revised\)](#);
 - Planning advice and instructions from the OAG; and
 - Advice received from the OAG about suspected instances of non-compliance.
- (d) If a public entity receives a Parliamentary appropriation on behalf of a Minister, the Appointed Auditor shall consider the application and other explanatory material in [AG-2: The Appropriation Audit and the Controller Function](#).

Additional requirement to consider issues of effectiveness and efficiency, compliance with statutory obligations, waste, and a lack of probity or financial prudence

7. Regardless of the requirements in paragraph 6 of this Statement, the Appointed Auditor shall maintain an alertness for, and awareness of, issues of effectiveness and efficiency, compliance with statutory obligations, waste, and a lack of probity or financial prudence when planning and performing the annual audit. The threshold for reporting to the Sector Manager at the OAG is that all issues shall be reported unless they are clearly trivial or inconsequential.

Appointed Auditors to comply with other OAG instructions on materiality

8. The Appointed Auditor shall, as a minimum, comply with any materiality considerations specified in instructions by the OAG. Irrespective of any materiality considerations specified by the OAG, the Appointed Auditor shall apply a lower materiality limit if this is necessary to achieve the objective of this Statement.

Determining an appropriate materiality base for the financial information as a whole

9. The Appointed Auditor shall, when setting materiality for the financial information, take into account the activities of the public entity. For example:
- (a) For public entities whose purpose is primarily to provide public benefits, the focus is likely to be on the quality of its expenditure. In this instance, gross expenditure might be an appropriate base for determining the level of financial materiality.
 - (b) For public entities whose primary purpose is the pursuit of commercial objectives, a financial materiality that is consistent with that entity's commercial objectives would be more appropriate.