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April 28, 2005

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

RE: Exposure Draft: “Materiality in the Identification and Evaluation of Misstatements”

Dear Sirs:

We have reviewed the exposure draft “Materiality in the Identification and Evaluation of Misstatements” and provide the following comments.

Use of percentage benchmarks

Paragraph 14: The example of one half percent of revenues or expenses used is low for most small enterprises. It is recommended that this figure be raised to one percent or that a range be suggested, such as one half of one percent for medium or larger enterprises to one percent for small enterprises, for example.

Paragraph 15: In using past results to assist in determining materiality, it could be suggested that using an average or weighted average in order to determine materiality would be an appropriate solution. While a weighted average flattens spikes, it also puts more emphasis on current rather than past results. Weighted average may be further defined as the results from the current year averaged with the average of the last two or three years’ results.

Tolerable error

Paragraph 20: As you are now providing benchmarks establishing materiality, we suggest that it is also appropriate to provide benchmarks in establishing what is a tolerable error.

Communication of Misstatements with Management

Paragraph 28: It is indicated that known and likely misstatements should be communicated to management in a timely manner. It may not be appropriate to communicate likely errors to management unless it is in the professional judgement of the auditor that it is relevant for management to know about and understand the likely errors.

With regards to misstatements, it would be an appropriate time to further clarify the position on misstatements. In paragraph 32, you state that “The auditor should request management to correct all known misstatements, other than those that the auditor believes are clearly trivial.” Yet in paragraph 36 (b), it is asserted that the auditor should consider whether or not items can be offset against each other in determining whether the aggregate of the misstatements is material. These two statements seem to contradict each other. It would be appropriate at this time to clearly indicate in the new standard whether or not errors can be offset by one another and under what circumstances they may or may not be offset. The use of the word “aggregate” in relation to errors causes some confusion — usage of the word aggregate indicates that items can be offset by each other while others indicate that they may not be offset.

With regards to the remainder of your proposals, we are in agreement with the issues discussed in the exposure draft; if the small entity issues are reconsidered and appropriately dealt with, the changes proposed to IAPS 1005 could be completed.

We hope you find these comments useful in your deliberations. Thank you for the opportunity to provide our comments.

Regards,

[Original signed by:]

Anthony Ariganello, FCGA, CPA (Delaware)
President & CEO