INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
The American Economic Association's electronic bibliography, EconLit, U.S.A.,
Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 3770 Cities in 175 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	KNOWLEDGE MANAGEMENT: STRATEGY FOR SUSTAINABLE COMPETITIVE ADVANTAGE *DR. HARESH BAROT*	1
2.	NON GOVERNMENTAL ORGANISATIONS AS AGENTS OF DEVELOPMENT: THE CASE OF LAPO IN BENIN METROPOLIS OF EDO STATE, NIGERIA *ONUGU, CHARLES UCHENNA & TAIWO ABDULAHI OLABISI*	4
3.	DETERMINANTS FOR COMMERCIAL BANKS IN FINANCING SME (WITH SPECIAL REFERENCE TO MEERUT DISTRICT, U.P., INDIA) *KALI RAM GOLA & P. K. AGARWAL*	9
4.	INVESTIGATING THE IMPACT OF ECONOMIC VARIABLES ON INTERNATIONAL TOURIST ARRIVALS *CHENG-WEN LEE, WEN-CHUAN FU, KUO-SUNG HSIEH & YI-CHANG LEE*	14
5.	A STUDY ON THE IMPACT OF PERSONAL EFFICACY ON JOB MOTIVATION AND JOB SATISFACTION AMONG WORKING WOMEN WITH SPECIAL REFERENCE TO THOSE WHO ARE STAYING AWAY FROM HOME *JAYASRI INDIRAN*	20
6.	EMERGING PROFILE OF WOMEN IN INFORMATION TECHNOLOGY SECTOR IN GOA *DR. SHARMILA BORKAR*	27
7.	INDIAN CAPITAL MARKET: AN OVERVIEW *DR. SHANKAR T. BATTASE & SUNANDA SHANKAR*	34
8.	CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY: A REVIEW *KOMAL CHAUDHARY*	37
9.	AUDIT PLANNING: MATERIALITY CONCEPT *CHANDRA KANT PARMAR*	41
10.	EMPOWERING WOMEN THROUGH PROACTIVE NATIONAL INITIATIVES: A CATALYST FOR HUMAN DEVELOPMENT *MANBIR KAUR DHALIWAL*	44
11.	NATIONAL FOOD SECURITY ACT OF INDIA AND RELATED CONCERNS *SWAPNAMOYEE PRIYABHASINI PALIT & MAMITA DASH*	49
12.	ECONOMIC AND ECOLOGICAL ANALYSIS OF LEATHER SOLID WASTES IN VELLORE DISTRICT, TAMIL NADU *T. AASIF AHMED & DR. B. MOHAMED RAFEEQ*	55
13.	A STUDY ON CUSTOMER SATISFACTION TOWARDS SAKTHI MASALA IN COIMBATORE CITY *S. THANGAMANI & E. ARTHI*	57
14.	CUSTOMER SATISFACTION OF SMALL SCALE RETAIL OUTLETS IN COIMBATORE CITY *J. SAMUEL CAESER PICKENS & P. STARMINI*	61
15.	MICRO FINANCE, SELF HELP GROUPS AND ECONOMIC EMPOWERMENT OF WOMEN IN ODISHA *DR. BANDANA PATHAK*	66
16.	FACTORS OF SPECIFIC JOB SATISFACTION AND GENERAL JOB SATISFACTION *TRUONG HONGNGOC & MARIA KATHRINA DIAZ*	71
17.	THE CURRENT SCENARIO OF GOLDEN FIBRE: A SPECIAL STUDY ON JUTE IN THE CONTEXT OF INDIA *RUSHA SARKAR*	77
18.	WOMEN EMPOWERMENT AND ITS IMPACT ON AGRICULTURAL PRODUCTIVITY: THE CASE OF KERSA DISTRICT IN EASTERN HARARGHE ZONE, ETHIOPIA *TADELE MELAKU CHALLA*	85
19.	IMPACT OF FDI ON INDIAN ECONOMY: AN INTER- COMPARATIVE STUDY BETWEEN CHINA AND USA *IRAM KHAN*	89
20.	GEOGRAPHICAL ASSESSMENT OF FINANCIAL INCLUSION IN INDIA *PURUSHOTTAM KUMAR ARYA, HIMANSHU MISHRA & AAKASH UPADHYAY*	93
	REQUEST FOR FEEDBACK & DISCLAIMER	99

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF.**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES**: These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**:These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

AUDIT PLANNING: MATERIALITY CONCEPT

CHANDRA KANT PARMAR
ASST. PROFESSOR
ST. XAVIER'S COLLEGE
KOLKATA

ABSTRACT

The basic objective of a financial audit is to express an opinion on the truth and fairness of the financial results. An auditor takes into consideration the financial as well as non financial information to form the opinion. Given the limited resources and time, an auditor needs to plan the audit in a proper way. Inter alia, the most important factors while framing the plan is 'materiality'. Generally materiality is defined as 'an omission or misstatement is material if knowledge of the omission or misstatement would influence the judgment of a reasonable person'. Materiality needs to be determined for individual items of financial statements and taken as a whole, ab ovo. Strictly speaking there is no thumb rule for determination of 'Materiality'. It depends on the judgment of Auditor. This paper explains the concept of materiality, its determination and practical application. Best estimate of materiality with proper planning helps the auditor to reduce the audit cost and effective use of resources.

KEYWORDS

audit planning, materiality concept.

INTRODUCTION

The basic objective of auditing a financial statement is to express an opinion on the financial statement based on the audit. This opinion basically requires the auditor to state whether the state of affairs and the results of the entity as ascertained by him in the course of his audit are truly and fairly represented in the financial statement under audit. The opinion about true and fair presentation of the financial statement depends, among other things, upon the judgment of materiality.

The concept of materiality is fundamental to the process of auditing. It covers all the stages from planning an audit to form an opinion at the last stage. Therefore it is an important and relevant consideration for an auditor who has constantly to judge whether a particular item or transaction or presentation is material or not in the process of recording to classification and disclosure requirements.

Materiality has been defined over the years by regulatory authorities, auditing standard setting bodies and auditors, among others. Generally, these definitions say that *an omission or misstatement is material if knowledge of the omission or misstatement would influence the judgment of a reasonable person.* SA 320[1] requires that when establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. Although the determination of materiality is a matter of auditor's professional judgment and is affected by the auditor's perception of the financial statement.

BASIC ESTIMATE OF MATERIALITY

The auditor considers materiality for the financial statement as a whole (overall materiality) and for particular accounts and disclosure (planning materiality). There are a number of factors that are to be considered while estimating the materiality. But there are no sets of thumb rule or standard formula that may be considered and applied consistently to find out the materiality. For example, ₹50,000/- may be material if an error affects the net income for a particular period whereas, an error of ₹75,000/- may be immaterial if it affects only in classification of expenses. So, determining materiality involves the exercise of professional judgment. According to SA 300[2] planning an audit includes the need to consider, prior to the auditor's identification and assessment of risk material misstatement, *the determination of materiality*. However SA 320 does not explicitly require an auditor to quantify the amount of preliminary estimate of materiality, neither as a specific nor an approximation. But to make proper planning, quantification is the most practical way to go with. The auditors often use the percentage to a chosen benchmark to determine materiality as a whole for the financial statement. The most common benchmarks and percentage threshold for materiality judgment are as follows:

TABLE 1

Benchmarks	Materiality Threshold Percentage & Auditor's Judgment		
	Not Material	Likely Material	Always Material
Total Revenue	<1%	1% To 2%	>2%
Net Income	-	-	±1%
Total Assets	<1%	1% To 2%	>2%
Total Expenses	<1%	1% To 2%	>2%
Statutory Dues	-	-	Any Amount

The factors that may affect the identification of appropriate benchmark include:

- Components of financial statements on which users will focus their attention;
- The entity's ownership structure;
- Internal control deficiencies
- The relative volatility of the benchmark;
- Nature of the entity with respect to the industry and economic environment.

It is to be noted that for determining the materiality, the weight should also be given to *qualitative aspect of materiality* also. For example, an amount of ₹7000/- paid to government official for unauthorized movement of goods from one state to another, may be material though the quantitative benchmark considers this amount as immaterial. Similarly a pending legal case with the tax authorities have no bearing in financial statements if no provision has been made and as such have no quantitative material impact, but will be treated as material if the fact is not disclosed in the financial statement. Since qualitative factors generally relate to transactions that involve relatively small amounts, it would be expensive to plan audit procedures to search for them. Generally knowledge from the client's previous engagement and other factors which is a matter of auditor's judgment brings the picture in mind.

From the perspective of non-financial decision variables, the most important to decide audit materiality is internal control within the enterprise. The more the control framework ineffective it is more vulnerable to any kind of unexpected happenings. *If there are no doors in the house, thefts will definitely take away the precious articles. Again even if the doors are there but it is not locked properly, the same result will repeat. So to what extent control points are there and whether they are effective or not, should also be considered while determining the materiality.*

So while making the basic estimation of materiality an auditor should consider both quantitative as well as qualitative factors.

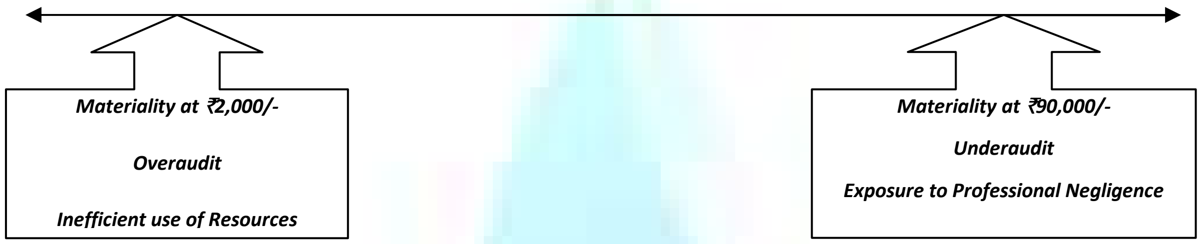
[1] ICAI Standard on Auditing 320 (Revised) 'Materiality in Planning and Performing an Audit', Paragraph 10
[2] ICAI Standard on Auditing 300 (Revised) 'Planning an Audit of Financial Statements' Paragraph A3

MATERIALITY AND COMPONENTS OF FINANCIAL STATEMENT

The auditor's basic estimation of materiality for the financial statement taken as a whole influences the appropriate nature, timing and extent of audit procedures for particular account balances and classes of transaction. As the total amount of error that would be considered material decreases, the more audit procedures to be applied to financial statement components increases and vice versa.

The whole estimated materiality computed above should be distributed to the components of financial statements. One such approach is to break down or allocate the preliminary estimate of materiality to each component of financial statements on the basis of the professional judgment. *The allocated broken materiality is called planning materiality which is relevant for a particular account or disclosure.* Planning materiality helps the auditor to determine the extent of allowable error for individual component of the financial statements and to what extent the evidence is needed for that component. For example, while checking of closing stock valuation the extent of substantive analytical procedure required may be based on planning materiality. Planning materiality might also be used in determining sample sizes for substantive procedures and to determine tolerable misstatement for each component. To determine the planning materiality for a particular class of transactions the auditor needs to be more cautious. For example, on a balance sheet date trade receivable account shows ₹3,00,000/- in the financial statement. Now if the auditor sets planning materiality at ₹2,000/- the auditor will end up by examining and evaluating almost every transaction. Whereas if the auditor sets planning materiality at ₹90,000/-, he may conclude almost without performing any audit procedures.

Trade Receivables ₹3,00,000/-



Because the threshold of what constitute material may never be at either of the extreme points, it is a matter of professional judgment to decide to what extent materiality will not affect an auditor's opinion. Improper planning may lead to overaudit or underaudit. Overaudit may be the result of inefficient use of resources while underaudit may expose professional negligence.

ASSESSING EXPECTED ERROR

Materiality arising on account of expected error is a part of basic estimation of materiality. To an auditor an expected error is that the amount of error that is likely to exist in the financial statement based on the understanding of the entity's business and the auditor's experience in auditing the client in prior years. The auditor's expectation of error that will remain uncorrected is influenced by the chances that the client will adjust the detected error. The more an entity is willing to adjust the financial statements for the auditor's estimate of error, the less the auditor needs to consider expected uncorrected error. For example, in the last financial year the auditor came to know that there was a trade debtor who was expected to become bankrupt and no provision was made in the books of accounts as the amount was not material. Subsequently the debtor has become bankrupt but still management has not made any provision for the debtor. In this situation the expected error as decided by the auditor will go up because the management has not corrected the identified error in proper time.

Because it may be difficult for an auditor to identify the specific accounts in which expected error is likely to occur and remain uncorrected, most of the time an auditor simply reduces his basic estimate of materiality by expected uncorrected error. This practice will lead to lower the level of materiality and will increase more the substantive procedure in planning an audit.

DETERMINING CUT-OFF POINT: TOLERANCE LEVEL

An auditor needs to determine the tolerable error after the allocation of planning material to each component of financial statement by using a suitable formula and his professional judgment. Besides the mathematical formula, an auditor also checks the internal control within the enterprise. When an auditor designs the audit procedures he should make a cut-off point for each component of financial statement. The greater the cut-off point he decides based on the judgment, the lesser the substantive procedure needs to be followed. Here the auditor should always be conservative for safe side of the game because any mistake in the auditor's best estimate may lead to underestimate or overestimate.

While determining the tolerable error so many factor needs to be considered. One such factor is the magnitude of the component to the financial statements taken as a whole. Generally the auditor pays more weights to the larger components of the financial statement. For example, a greater portion of basic estimation of materiality should be given to an imported machinery costing ₹15,00,000/- rather than purchase amounting to ₹1,30,000 of tools and spare parts.

Another important factor for consideration of tolerable error is the unit cost of auditing. For example, greater tolerable error may be allocated to audit of inventory, that are expected to be relatively difficult and costly to audit fairly when compared to cash or loan from bank. *It should be keep in mind that cost of lock should not be more than the asset/s it protects.*

An auditor may also consider the variability of values in a component for determination of appropriate tolerable error of that component. As the variability of the value increases or decreases, it is more difficult to determine the cut-off point. As a result more tolerance may be given with high variability.

One more factor is the dependence of a specific item on another item. For example, the carriage inward is basically dependent on the purchase of goods. Now if the purchase of goods increases, the carriage inward expense should be less based on the logic that the goods are purchased in bulk. On the contrary, more transportation cost is obvious for more goods. As a result some auditors may allocate more tolerance error while checking of expense of carriage inward.

So to determine a suitable tolerable error for each component of the financial statement a simplified mathematical formula may be used which is as follows:

$$\text{Tolerable Error for a Component} = \sqrt{\frac{\text{Amount of Component}}{\text{Amount of all Material Components of the Financial Statement}}} \times \begin{array}{l}\text{Preliminary Estimate}\\ \text{of Materiality Less}\\ \text{Expected Uncorrected}\\ \text{Error}\end{array}$$

Source: Using Materiality in Audit Planning by George R. Zuber, Robert K. Ellikot, William R. Kinney, James J. Leisenring; Journal of Accountancy, March 1983

The above formula is based on the magnitude of the component to the financial statements taken as a whole. A more comprehensive mathematical equation may be used for allocating the tolerable error considering the other factors also. But to develop such a complex model may exceeds the savings. It is to be noted that even after the developments of all these models the concept of materiality remains a matter of professional judgment.

USING TOLERANCE ERROR IN AUDIT PLANNING

Once the tolerance level for each of the component is decided the auditor starts the audit planning based on the level of tolerance. Generally, higher the level of tolerance, lower the required levels of test to achieve that precision and vice versa. So there is an inverse relation between tolerance level and audit test. For example an auditor may decide not to go through a loan account which has year-end outstanding balance of ₹50,000 considering a tolerance level of ₹30,000.

For achieving a certain level of precision the auditor may use statistical sampling[3] as a means of test of details. Again the auditor may also use 'test check' if the tolerable error is very strong. On the other hand stronger tests would, in general, be the results of -

- Lower tolerance level;
- Non frequent nature of transactions;
- Exceptional or extra-ordinary item and etc.

As stated above for lower the tolerance level the stronger the test should be. For this purpose the auditor may take larger sample size, tests performed closer to the balance sheet date etc. The tolerance level derived from the mathematical formula does not always should be the cut-off point for the purpose of audit checking. For example, an amount of ₹30,000 is derived as tolerance level for bank balance by using a certain mathematical model. While the balance sheet shows a book balance of ₹1,15,000/-. Now as the bank balance is a very sensitive item tempering of which may result in serious issue, the auditor should not rely on the tolerance level and should satisfy him without any compromise. Similarly putting a tolerable amount in old Government dues is absolutely irrelevant for the purpose of audit checking. Because non-payment of Government dues may result in payment of penalty which when taken together may become material and a question of violation of laws and rules. So there is no hard and fast rule which can be set to determine the audit planning procedures based on the tolerance error. But still the auditor may use the tolerance level stated above to determine the materiality along with his best professional judgment.

REVISION OF MATERIALITY: CHANGE IN AUDIT PLAN

Materiality for the financial statement as a whole and for a particular class of transactions needs to be revised as the audit progresses. For example, during the process of audit if the auditor comes to know about a fraud, it needs to reduce the tolerance level and check more thoroughly resulting change in audit plan. So revision of materiality is a continuing process as the audit progresses and simultaneously change comes in audit plan, if required.

CONCLUSION

Planning an audit is based on the concept of materiality among other factors. So, to plan an audit efficiently and effectively consideration of materiality is basic and fundamental. To what extent an auditor should go for in-depth checking depends on the materiality that the auditor think fit for that particular financial statement. Unless an auditor decides the basic estimates of materiality of a financial statement, the auditor may be clueless that to what extent he should check the financial statements for the purpose of forming an opinion. So it can be concluded by saying that proper estimation of materiality along with the best professional judgment helps the auditor to properly design an audit plan which in turn results effective utilization of resources.

REFERENCES

1. George R. Zuber, Robert K. Ellikot, William R. Kinney and James J. Leisenring (March 1983), "Using Materiality in Audit Planning" Journal of Accountancy, pp. 42-54
2. ICAI Standard on Auditing 300 (Revised) 'Planning an Audit of Financial Statements'.

[3] ICAI Standards on Auditing 530 (Revised) 'Audit Sampling'

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, Economics & Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail**infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

DISCLAIMER

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals