

EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT: CAS 450

Requirements

- **Accumulate misstatements** identified during the audit, other than those that are clearly trivial
 - Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with CAS 320, and will be matters that are clearly inconsequential, whether taken individually or in aggregate
- Determine **whether the overall audit strategy and audit plan need to be revised** if:
 - a) The nature of identified misstatements and the circumstances of their occurrence indicate that **other misstatements may exist that**; or
 - b) The aggregate of misstatements accumulated during the audit **approaches materiality**
- If, at the auditor's request, management has corrected misstatements that were detected, the auditor should **perform additional procedures** to determine whether misstatements remain
- **Communicate on a timely basis** all misstatements accumulated during the audit with the appropriate level of management and **request management to correct** those misstatements
 - The appropriate level of management is the one that has responsibility and authority to evaluate the misstatements and to take the necessary action (i.e. CFO, Controller)
- If management refuses to correct the misstatements, obtain an understanding of management's reasons for not making the corrections and take that understanding into account when evaluating whether the F/S as a whole are free from material misstatement

Evaluating the Effect of Uncorrected Misstatements

- Before evaluating the effect of uncorrected misstatements, **reassess materiality** to confirm whether it remains appropriate in the context of the entity's **actual financial results** (note: preliminary planning materiality will often change due to misstatements in net income or other bases on which materiality is determined)
- Determine whether uncorrected misstatements are material, **individually** or in **aggregate, and consider**:
 - a) The **size and nature of the misstatements**, both in relation to particular classes of transactions, account balances or disclosures and the F/S as a whole
 - It may be appropriate to offset misstatements **within the same** account balance or class of transaction (i.e. you can offset an overstatement in revenue with an understatement in revenues; but not revenues with expenses)
 - The risk that further undetected misstatements may exist is considered before concluding that offsetting even immaterial misstatements is appropriate
 - Consider qualitative factors also to determine if something is material (even if the misstatement is lower than the materiality amount; these could include misstatement that:
 - Affects compliance with regulatory requirements;
 - Affects compliance with debt covenants or other contractual requirements
 - Affects ratios used to evaluate the entity
 - b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the F/S as a whole
 - Note that immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's F/S (i.e. materiality may be lower in the current year)

Communication with Those Charged with Governance

- Communicate with those charged with governance
 - The **uncorrected misstatements** and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report; and
 - The effect of **uncorrected misstatements related to prior periods** on the relevant classes of transactions, account balances or disclosures, and the F/S as a whole

Written Representations

- Request a written representation from management and those charged with governance whether they believe **the effects of uncorrected misstatements are immaterial**, individually and in aggregate, to the financial statements as a whole.
 - A summary of these items should be attached to the written representation.

Documentation

- Document the following
 - Amount below which misstatements would be regarded as **clearly trivial**
 - All **misstatements accumulated** during the audit and **whether** they have been corrected
 - Auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion