SA-450 - Evaluation of Misstements Identified during the Audit

Objective of Auditor

Evaluate Effect of

Identified & Uncorrected
Misstatements → on Audit
Uncorrected Misstatements → on Fin. St.

Misstatements

Difference b/w amounts, Classification, presentation / disclosure of Reported fin. st. Item that is Required as per Applicable FRF.

Can arise from Fraud / Error.

Causes of Misstament

a.) Inaccuracy in gathering / processing data of Fin. St.

b.) Ommission of Amt. / Disclosure

c.) Incorrect A/cing Estimate arising from Overlooking / misinterpretation of fact

d.) Unreasonable A/cing Estimate Judgements & Inappropriate selection & application of A/cing policies

Accumulation of Identified Misst.

Other than those which are clearly trivial (little value)

Consideration of Identified Misst. as the Audit progresses

- Determine whether need to REVISE Overall Audit Strategy & Audit Plan if:-

→ If this Indicates that Other Misst. may exist

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when aggregated with these accumulated misst. Could be Material.

→ Materiality determined as per SA-320

- If at Auditor's request, Mgt. examined
  - Class of trans
  - A/c Balance
  - Disclosure

& corrected misst. that were detected

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Auditor performs Addition Audit procedures to determine whether misst. remains.

Communication & Correction of Misst.

- On timely basis
- All Misst accumulated
- To appropriate level of Mgt.

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Request them to correct these misst.

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If mgt. Refuses to Correct Some / all Misst.

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Obtain understanding of Mgt.'s Reasons

Evaluating Effect of Uncorrected Misst.

- Prior to this, Reassess Materiality as per SA-320 to confirm its Appropriateness
- Whether Uncorrected Misst. are Material Individually / In Aggregate

→ Size, Nature, Effect of Uncorrected Misst. of prior periods on
- Class of trans. / A/c Balance & Disclosure
- Financial St. as a whole.

Communication with TCWG

- Uncorrected Misst. & their effect on Opinion in Auditor's Report unless prohibited by law or regulation + request for Correction
- Effect of prior period's Uncorrected Misst. on relevant Class of trans., A/c Balance, Disclosure or F st. as a whole.

Written Representation

→ from Mgt. / TCWG

→ whether they believe effects of Uncorrected Misst. are IMMATERIAL Individually & in aggregate to Fin. St. as a whole

→ Summary of such Items to be part of WR.

Documentation

→ Level - Amount below which misst. regarded as clearly trivial.

→ All Misst accumulated & whether Corrected

→ Auditor's Conclusion

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on whether Uncorrected Misst. are Material & Basis of that Conclusion.