

SA-450 EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

What is Auditor's objective in this SA?

The objective of the auditor is to evaluate:

- (a) The effect of identified misstatements on the audit; and
- (b) The effect of uncorrected misstatements, if any, on the financial statements.

What do you mean by misstatement and uncorrected misstatements?

Misstatement refers to A difference between the **amounts**, classification, presentation, or disclosure of a **reported financial statement item** and the amount, classification, presentation, or **disclosure that is required for the item to be in accordance with the applicable financial reporting framework**. Misstatements can arise from error or fraud. On the other hand uncorrected misstatements refer to Misstatements that the auditor has accumulated during the audit and that have not been corrected.

Requirements

Step-1 Consideration of Identified Misstatements as the Audit Progresses

The auditor shall 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, when aggregated with misstatements accumulated during the audit, could be material; or
- (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 (Revised).

If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.

Step-2 Communication and Correction of Misstatements

The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation⁵. The auditor shall request management to correct those misstatements. If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

Step-3 Communication with Those Charged with Governance

The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Step-5 Written Representation

The auditor shall request a written representation from management and, where appropriate, 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 such items shall be included in or attached to the written representation.

Step-5 Documentation

15. The audit documentation shall include:

- (a) The amount below which misstatements would be regarded as clearly trivial
- (b) All misstatements accumulated during the audit and whether they have been; and
- (c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.