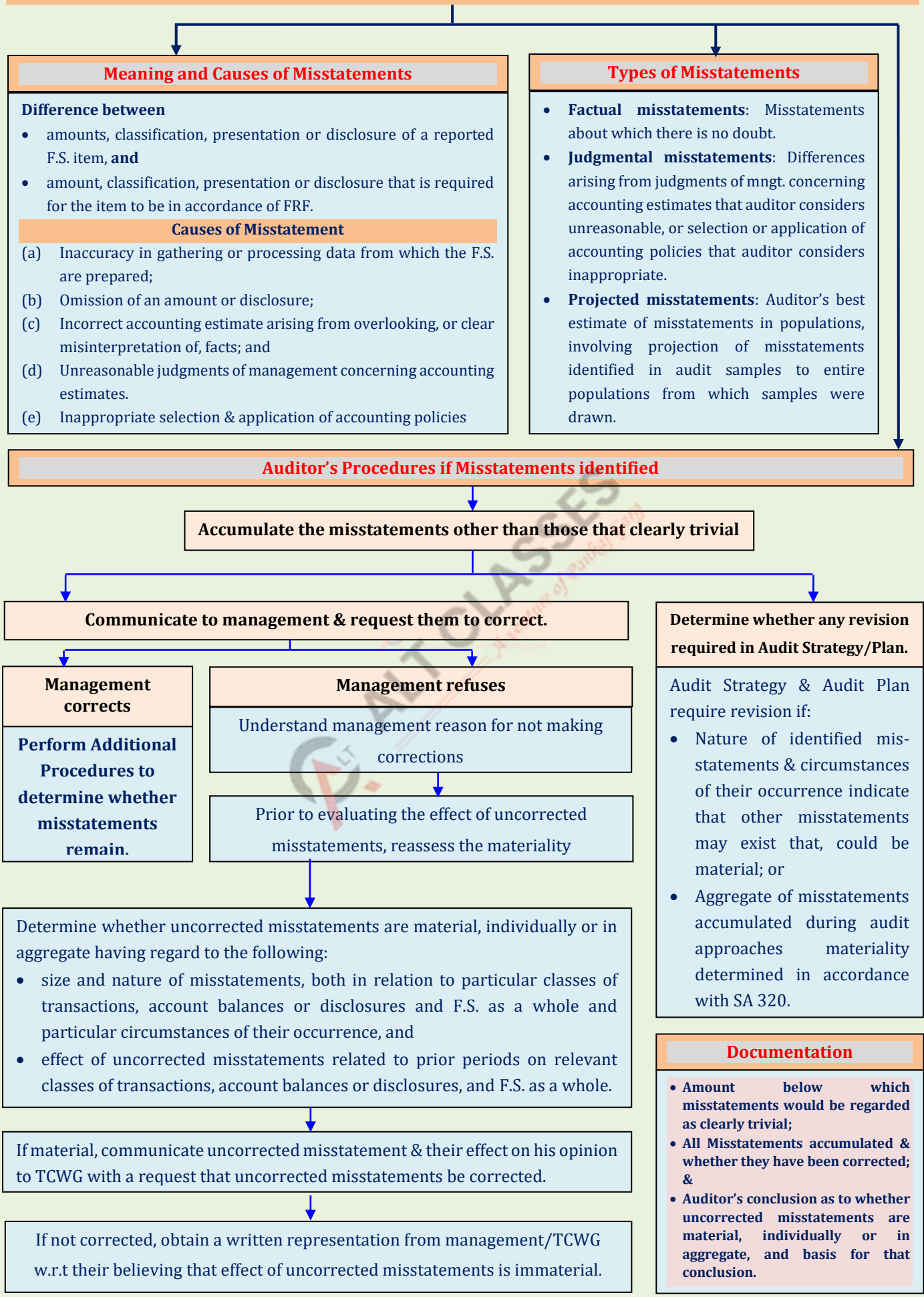


3.9 - SA 450 "Evaluation of Misstatements identified during the Audit"



Meaning and Causes of Misstatements

Difference between

- amounts, classification, presentation or disclosure of a reported F.S. item, and
- amount, classification, presentation or disclosure that is required for the item to be in accordance of FRF.

Causes of Misstatement

- Inaccuracy in gathering or processing data from which the F.S. are prepared;
- Omission of an amount or disclosure;
- Incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
- Unreasonable judgments of management concerning accounting estimates.
- Inappropriate selection & application of accounting policies

Types of Misstatements

- **Factual misstatements:** Misstatements about which there is no doubt.
- **Judgmental misstatements:** Differences arising from judgments of mngt. concerning accounting estimates that auditor considers unreasonable, or selection or application of accounting policies that auditor considers inappropriate.
- **Projected misstatements:** Auditor's best estimate of misstatements in populations, involving projection of misstatements identified in audit samples to entire populations from which samples were drawn.

Auditor's Procedures if Misstatements identified

Accumulate the misstatements other than those that clearly trivial

Communicate to management & request them to correct.

Management corrects

Perform Additional Procedures to determine whether misstatements remain.

Management refuses

Understand management reason for not making corrections

Prior to evaluating the effect of uncorrected misstatements, reassess the materiality

Determine whether uncorrected misstatements are material, individually or in aggregate having regard to the following:

- size and nature of misstatements, both in relation to particular classes of transactions, account balances or disclosures and F.S. as a whole and particular circumstances of their occurrence, and
- effect of uncorrected misstatements related to prior periods on relevant classes of transactions, account balances or disclosures, and F.S. as a whole.

If material, communicate uncorrected misstatement & their effect on his opinion to TCWG with a request that uncorrected misstatements be corrected.

If not corrected, obtain a written representation from management/TCWG w.r.t their believing that effect of uncorrected misstatements is immaterial.

Determine whether any revision required in Audit Strategy/Plan.

Audit Strategy & Audit Plan require revision if:

- Nature of identified misstatements & circumstances of their occurrence indicate that other misstatements may exist that, could be material; or
- Aggregate of misstatements accumulated during audit approaches materiality determined in accordance with SA 320.

Documentation

- Amount below which misstatements would be regarded as clearly trivial;
- All Misstatements accumulated & whether they have been corrected; &
- Auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and basis for that conclusion.