

SA 450 Evaluation of Misstatement Identified During the Audit

Misstatement

Difference between	
Amounts, Classification, Presentation, or Disclosure of a reported financial statement item and	Amount, Classification, Presentation, or Disclosure that is required for the item to be in accordance with applicable FRF

Objective

To evaluate: effect of **identified misstatements** on the audit; and effect of **uncorrected misstatements**, if any, on FS.

Sources of Misstatement

- An **inaccuracy** in gathering or processing data from which FS are prepared;
- An **omission** of an amount or disclosure;
- An **incorrect accounting estimate** arising from overlooking, or clear misinterpretation of, facts; and
- Judgments of management** concerning accounting estimate that auditor considers **unreasonable** or selection and application of accounting policies that the auditor **considers inappropriate**.

Communication and Correction of Misstatements

- ❑ **Communicate on a timely basis** all misstatements accumulated during audit with appropriate level of management, unless prohibited by L/R.
- ❑ Auditor shall request management to **correct** those misstatements.
- ❑ If management refuses to correct some or all of the misstatements, obtain an understanding of **management's reasons** for not making the corrections.
 - If management corrects**: perform additional to determine whether misstatements remain.
 - If management refuses** :
 - ✓ Reason for refusal
 - ✓ Reassess materiality
 - ✓ If material - communicate to TCWG including effect of misstatement and request for correction
 - ✓ If not corrected : Obtain WR from Mgt./TCWG w.r.t their believing that effect of uncorrected misstatements is immaterial.

Impact of Uncorrected Misstatements identified during audit & Auditor's responses to them

[Evaluating effect of Uncorrected Misstatements]

- ❑ Auditor shall determine whether uncorrected misstatements are **material** (individually or aggregate)
- ❑ Auditor shall consider -
 - **Size & Nature of misstatement** for class of transaction, account balance and disclosures & FS
 - **Effect of uncorrected misstatement** related to prior periods on class of transaction, account balance and disclosures & FS.
- ❑ Auditor shall communicate with TCWG Uncorrected misstatement & their effect. (refer communication)
- ❑ Reassess materiality determined in SA 320
- ❑ As per Mgt., if effects of uncorrected misstatements are immaterial, auditor shall request WR from Mgt. & TCWG.
- ❑ If Mgt. refuses to adjust financial information & auditor **not able to conclude whether aggregate of uncorrected misstatement is not material**, **express qualified or adverse opinion**