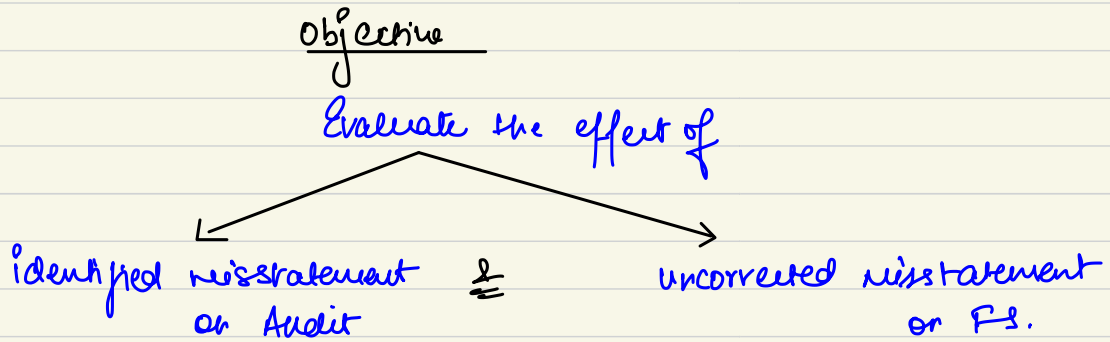


SA 450: Evaluation of misstatements identified during audit



Accumulation of identified misstatements

- Accumulate misstatements identified during audit **except clearly trivial.**
eg Audit \rightarrow decide \rightarrow any misstatement below 5% of materiality will not be accumulated. if materiality = ₹ 50 Lakhs, any misstatement that is below 2.5L. (50,00,000 \times 5%) will not be accumulated.
- Misstatements can arise from variety of factors.
eg ① **Inaccuracy** in gathering/processing of data. or
wrong useful life of PPE *formula mistake*
- ② **Omission** of amt. / disclosure. (eg R.P. disclosure missed in FS.)

Consideration of Identified Misstatement

Determine if OAS & plan needs to be revised if:

(a) **Nature & (cause) circumstances**
of misstatements

(b) **Aggregates of accumulated miss. approaches materiality**

Indicate other misstatements may exist or

that when **aggregated with accumulated ones**



could be **material**

• Request mgt: Examine A.B.C. D to:

Understand **cause of miss.** (a)

Perform **procedures to determine actual miss.** (a)

Make **appropriate adjustments to FS.** (a/b)

eg. Request maybe based on **auditor's projection of misstatement.**

Conclusion: If mgt **examined & corrected miss.**, perform **addⁿ audit pro. to check if miss. remains.**

Rough
(concept)

Materiality ₹50 lakhs

Step 1 (a) Estimate/proj. miss. ₹30 lakhs

(b) Acc. miss. ₹52 lakhs

Acc. miss. $\frac{22 \text{ lakhs}}{52 \text{ lakhs}}$

Step 2

Request mgt

- Understand **cause (a)**
- **Actual miss (a)**
- **Adjustments to FS. (a/b)**

Step 3 Auditor → Addⁿ audit pro. → Miss. remain?

Communication & Correction of Miss.

- Communicate ALL misstatements accumulated during audit to mgt.
- Request mgt to correct it.

Auditor's Revenue wrong

mgt's New Agreement customer

Why?

Quality

- Allows mgt to evaluate whether items are misstatement, inform if it disagrees & take necessary action.

Quality

- Correction by mgt of all miss., helps to maintain accurate accounts, books & records & reduces Romm

for future fs. [2024-25 ₹45 lakhs MP → 2025-26 ₹6 lakhs → ₹1 Lakhs] Materiality Solach

If mgt refuses? Understand reasons & evaluate whether fs. are free from material miss.

Uncorrected Misstatements (Accumulated but not corrected by mgt)

① Reassess materiality as per SA 320, to confirm if it is appropriate as per actual financial results.

② Check if miss. are material?

Determine if uncorrected miss. are material [individually / aggregate]

Consider:

i) Nature & size of misstatements both in relation to fs & particular ABCD & circumstances.

ii) Effect of uncorrected miss. of prior period on relevant ABCD & fs.

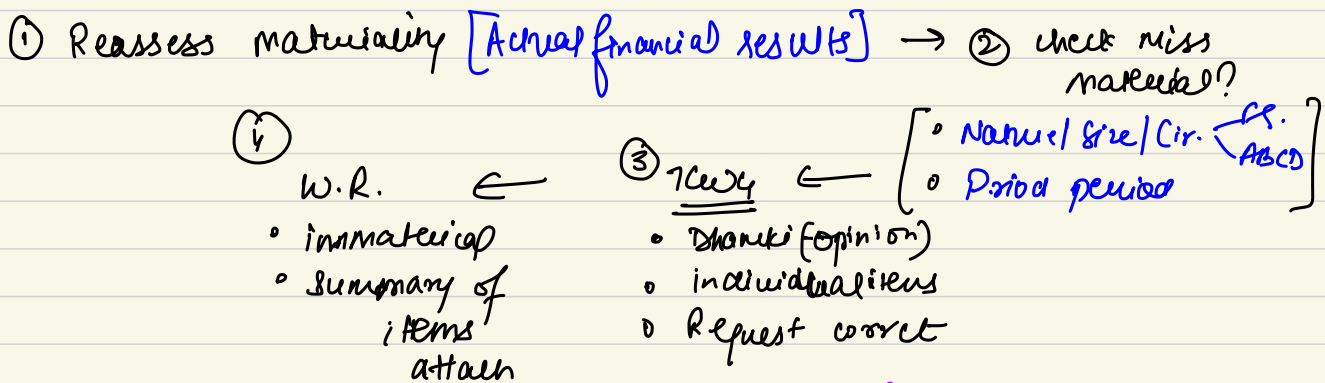
③ Communication with TCWY

- communicate uncorrected miss. (including prior period) & its effect on auditor's opinion modify
- Identify all misst. individually.
- Request for correction.

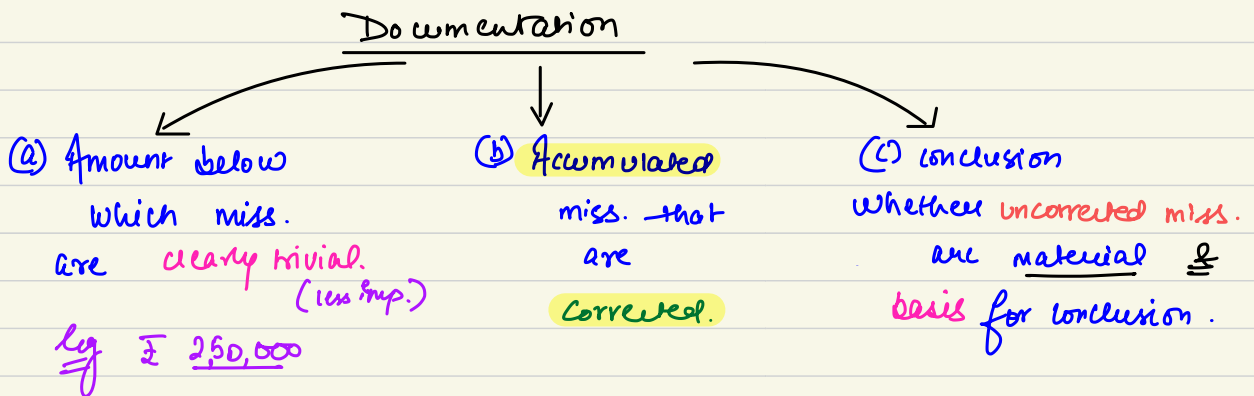
④ Written Representation [W.R.] • Request WR from mgt & TCWY that they believe effect of uncorrected miss. is material.

• Summary of items should be attached to W.R.

flow:



2000
2000 :o)



SA450 [flow]

Missstatement

Accumulate ✓

Accumulate ✗

Clearly Trivial

• Consideration of identified mis.:

(a)
EMT Acc. miss
↓
m

(b)
Acc. miss
↓
mat.

mgr
↓
Audit Pro
m. reviews

cause
Actual
ps. adjust

Communication with mgr ^{Acc} miss. accumulate
Request correction

[Refuse]

Uncorrected mis

① Reassess materiality

② check → v.m. → material? (g/A)

③ TCEQ — should (opinion)
— ind. items

④ W.P.

- effect → immaterial
- summary of items → attach.

9:48am

Test: SA530 } ⇒ Revision video ⇒ Pause/Revise/Reveal
SA450 } [g. review + 4.T.] (self)

✓

1hr 12/15
30