

Date: 27 August, 2010

Ref no: 14-2008-0111

Description of content of ISSAI 1450

Evaluation of Misstatements Identified during the Audit

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1450 is comprised of International Standard on Auditing (ISA) 450 – Evaluation of Misstatements Identified during the Audit, and a corresponding Practice Note. The ISA and the Practice Note are read together.

Authority

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

Description of the ISA

ISA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. ISA 700¹ deals with the auditor's responsibility, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. The auditor's conclusion required by ISA 700 takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with ISA 450. ISA 320² deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of financial statements.

Objective of the auditor in terms of the ISA

The objective of the auditor is to evaluate:

¹ ISA 700, Forming an Opinion and Reporting on Financial Statements, paragraphs 10-11.

² ISA 320, Materiality in Planning and Performing an Audit.

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

Among other matters, the requirements in this ISA deal with:

- a. The need to accumulate misstatements identified during the audit, other than those that are clearly trivial.
- b. The need to determine whether the overall audit strategy and audit plan need to be revised if 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 the aggregate of misstatements accumulated during the audit approaches materiality.
- c. The need to communicate all misstatements on a timely basis. If the entity refuses to correct some or all of the communicated misstatements, the auditor must understand the reason for not making the correction and take that into account when evaluating whether the financial statements as a whole are free from material misstatement.
- d. The need to reassess materiality determined in accordance with ISA 320 prior to evaluating the effect of uncorrected misstatements.
- e. In determining whether uncorrected misstatements are material, individually or in aggregate, the need to consider the size and nature of the misstatements, both in relation to the particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence along with the effect of uncorrected misstatements related to prior periods.
- f. The need to communicate with those charged with governance uncorrected misstatements, including those related to prior periods and the effect that they may have on the opinion in the auditor's report.
- g. The need to request a written representation from 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.
- h. Audit documentation requirements in relation to misstatements identified during the audit.

Description of the Practice Note

The Practice Notes provides supplementary guidance for auditors applying ISA 450 when conducting financial audits of public sector entities.

Content of the Practice Note

The Practice Note provides additional guidance for public sector auditors related to:

- a. Overall considerations relating to additional objectives or public expectations that may include supplementary auditing and reporting responsibilities on evaluation of misstatements.
- b. Evaluating the effect of uncorrected misstatements.
- c. Written representations.
- d. Specific considerations for public sector auditors with a judicial role.