

EXPOSURE DRAFT

**ED 18/08**

(November 2008)

**Proposed Auditing Standard  
ASA 450  
*Evaluation of Misstatements  
Identified during the Audit*  
(Revised and Redrafted)  
(Re-issuance of ASA 320)**

Issued for Comment by the **Auditing and Assurance Standards Board**



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by no later 15 December 2008. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au).

## **Obtaining a Copy of this Exposure Draft**

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ISSN 1030-603X

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## PREFACE

### **Reasons for Issuing ED 18/08**

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard ASA 320 *Materiality and Audit Adjustments* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

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## **Main Proposals**

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the auditor's responsibility to evaluate the effect of identified misstatements on the audit and or uncorrected misstatements, if any in the financial report.

## **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 January 2010.

## **Main changes from existing ASA 320 *Materiality and Audit Adjustments* (April 2006)**

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, *ASA 320 Materiality and Audit Adjustments* (April 2006), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 320, *Materiality and Audit Adjustments* by no later than 15 December 2008. The AUASB is seeking comments on the main changes from the existing ASA 320. In addition, respondents are asked to consider and respond to the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

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5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

**AUASB Information Note**

The IAASBs “Clarity” project is not yet complete, and accordingly there is a possibility that the equivalent underlying ISA standard to this Exposure Draft will include conforming amendments arising from standards not yet approved by the IAASB. While all currently known conforming amendments are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make further conforming amendments, in line with those of the IAASB.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 450 *Evaluation of Misstatements Identified during the Audit (Revised and Redrafted)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards are to be understood, interpreted and applied.

## AUDITING STANDARD ASA 450

### *Evaluation of Misstatements Identified during the Audit (Revised and Redrafted)*

#### Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) an audit of a financial report for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

#### Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

#### Introduction

##### Scope of this ASA

1. This Auditing Standard 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 report. ASA 700 (Revised and Redrafted) deals with the auditor's responsibility, in forming an opinion on the financial report, to conclude whether reasonable assurance has been obtained about whether the financial report as a whole is free from material misstatement. The auditor's conclusion required by ASA 700 (Revised and Redrafted) takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial report, in accordance with this Auditing Standard.<sup>1</sup> ASA 320 (Revised and Redrafted)<sup>2</sup> deals with the auditor's responsibility to apply the concept of materiality

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<sup>1</sup> See ASA 700 (Revised and Redrafted), *Forming an Opinion and Reporting on the Financial Report*.

<sup>2</sup> See ASA 320 (Revised and Redrafted), *Materiality in Planning and Performing an Audit*.



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appropriately in planning and performing an audit of a financial report.

**Effective Date**

2. [Deleted by the AUASB. Refer Aus 0.3]

**Objective**

3. 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 report.

**Definitions**

4. For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:

- (a) Misstatement means a difference between the amount, classification, presentation, or disclosure of a reported financial report 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.  
(Ref: Para. A1)

When the auditor expresses an opinion on whether the financial report gives a true and fair view or is presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial report to give a true and fair view or present fairly, in all material respects.

- (b) Uncorrected misstatements means misstatements that the auditor has accumulated during the audit and that have not been corrected.

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## **Requirements**

### **Accumulation of Identified Misstatements**

5. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. A2-A3)

### **Consideration of Identified Misstatements as the Audit Progresses**

6. 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 (Ref: Para. A4)
  - (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ASA 320 (Revised and Redrafted). (Ref: Para. A5)
7. If, at the auditor's request, management has examined a class of transactions, account balances or disclosures and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. (Ref: Para. A6)

### **Communication and Correction of Misstatements**

8. 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 regulation.<sup>3</sup> The auditor shall request management to correct those misstatements. (Ref: Para. A7-A9)
9. 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 report as a whole is free from material misstatement. (Ref: Para. A10)

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<sup>3</sup> See ASA 260 (Revised and Redrafted), *Communication with Those Charged with Governance*, paragraph A4.

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**Evaluating the Effect of Uncorrected Misstatements**

10. Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with ASA 320 (Revised and Redrafted) to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. A11-A12)
11. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:
  - (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial report as a whole, and the particular circumstances of their occurrence; and (Ref: Para. A13-A17, A19-A20)
  - (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial report as a whole. (Ref: Para. A18)

*Communication with Those Charged with Governance*

12. 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.<sup>4</sup> The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. A21-A23)
13. 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 report as a whole.

**Written Representation**

14. 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 report as a whole. A

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<sup>4</sup> See footnote 3.

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summary of such items shall be included in or attached to the written representation. (Ref: Para. A24)

**Documentation**

15. The audit documentation shall include: (Ref: Para. A25)
- (a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5);
  - (b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs 5, 8 and 12); and
  - (c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 11).

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**Application and Other Explanatory Material**

**Misstatements** (Ref: Para. 4(a))

- A1. Misstatements may result from:
- (a) An inaccuracy in gathering or processing data from which the financial report is prepared;
  - (b) An omission of an amount or disclosure;
  - (c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
  - (d) Judgements of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

Examples of misstatements arising from fraud are provided in ASA 240 (Revised and Redrafted).<sup>5</sup>

- Aus A1.1 The Australian Accounting Standards\* explain the role of materiality in making judgements in the preparation and presentation of financial reports by the entity. This Auditing Standard explains the role of materiality in evaluating audit evidence. This includes:
- assessing both qualitative and quantitative materiality factors when evaluating the results of audit procedures;
  - re-assessing the materiality level used in planning the audit, based on the outcomes of audit procedures and actual results for the period, to determine whether there is a need to extend audit procedures; and
  - evaluating the effect of uncorrected misstatements in the financial report and the impact on audit risk.

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<sup>5</sup> See ASA 240 (Revised and Redrafted), *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs A1-A6.

\* See AASB 1031 *Materiality*.

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**Accumulation of Identified Misstatements** (Ref: Para. 5)

- A2. The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial report. “Clearly trivial” is not another expression for “not material.” Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with ASA 320 (Revised and Redrafted), and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.
- A3. To assist the auditor in evaluating the effect of misstatements accumulated during the audit and in communicating misstatements to management and those charged with governance, it may be useful to distinguish between factual misstatements, judgemental misstatements and projected misstatements.
- Factual misstatements are misstatements about which there is no doubt.
  - Judgemental misstatements are differences arising from the judgements of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate.
  - Projected misstatements are the auditor’s best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn. Guidance on the determination of projected misstatements and evaluation of the results is set out in ASA 530 (Revised and Redrafted).<sup>6</sup>

**Consideration of Identified Misstatements as the Audit Progresses** (Ref: Para. 6-7)

- A4. A misstatement may not be an isolated occurrence. Evidence that other misstatements may exist include, for example, where the auditor identifies that a misstatement arose from a breakdown in

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<sup>6</sup> See ASA 530 (Revised and Redrafted), *Audit Sampling*, paragraphs 14-15.

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internal control or from inappropriate assumptions or valuation methods that have been widely applied by the entity.

- A5. If the aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ASA 320 (Revised and Redrafted), there may be a greater than acceptably low level of risk that possible undetected misstatements, when taken with the aggregate of misstatements accumulated during the audit, could exceed materiality. Undetected misstatements could exist because of the presence of sampling risk and non-sampling risk.<sup>7</sup>
- A6. The auditor may request management to examine a class of transactions, account balances or disclosures in order for management to understand the cause of a misstatement identified by the auditor, perform procedures to determine the amount of the actual misstatement in the class of transactions, account balance or disclosure, and to make appropriate adjustments to the financial report. Such a request may be made, for example, based on the auditor's projection of misstatements identified in an audit sample to the entire population from which it was drawn.

**Communication and Correction of Misstatements** (Ref: Para. 8-9)

- A7. Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the items are misstatements, inform the auditor if it disagrees, and take action as necessary. Ordinarily, the appropriate level of management is the one that has responsibility and authority to evaluate the misstatements and to take the necessary action.
- A8. Law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider seeking legal advice.
- A9. The correction by management of all misstatements, including those communicated by the auditor, enables management to maintain accurate accounting books and records and reduces the risks of material misstatement of future financial reports because of the

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<sup>7</sup> See ASA 530 (Revised and Redrafted), paragraphs 5(c) and (d).

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cumulative effect of immaterial uncorrected misstatements related to prior periods.

- A10. ASA 700 (Revised and Redrafted) requires the auditor to evaluate whether the financial report is prepared and presented, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation includes consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements,<sup>8</sup> which may be affected by the auditor's understanding of management's reasons for not making the corrections.

**Evaluating the Effect of Uncorrected Misstatements** (Ref: Para. 10-11)

- A11. The auditor's determination of materiality in accordance with ASA 320 (Revised and Redrafted) is often based on estimates of the entity's financial results, because the actual financial results may not yet be known. Therefore, prior to the auditor's evaluation of the effect of uncorrected misstatements, it may be necessary to revise materiality determined in accordance with ASA 320 (Revised and Redrafted) based on the actual financial results.
- A12. ASA 320 (Revised and Redrafted) explains that, as the audit progresses, materiality for the financial report as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) is revised in the event of the auditor becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.<sup>9</sup> Thus, any significant revision is likely to have been made before the auditor evaluates the effect of uncorrected misstatements. However, if the auditor's reassessment of materiality determined in accordance with ASA 320 (Revised and Redrafted) (see paragraph 10 of this Auditing Standard) gives rise to a lower amount (or amounts), then performance materiality and the appropriateness of the nature, timing and extent of the further audit procedures are reconsidered so as to obtain sufficient appropriate audit evidence on which to base the audit opinion.
- A13. Each individual misstatement is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded.

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<sup>8</sup> See ASA 700 (Revised and Redrafted).

<sup>9</sup> See ASA 320 (Revised and Redrafted), paragraph 12.



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- A14. If an individual misstatement is judged to be material, it is unlikely that it can be offset by other misstatements. For example, if revenue has been materially overstated, the financial report as a whole will be materially misstated, even if the effect of the misstatement on earnings is completely offset by an equivalent overstatement of expenses. It may be appropriate to offset misstatements within the same account balance or class of transactions; however, the risk that further undetected misstatements may exist is considered before concluding that offsetting even immaterial misstatements is appropriate.<sup>10</sup>
- A15. Determining whether a classification misstatement is material involves the evaluation of qualitative considerations, such as the effect of the classification misstatement on debt or other contractual covenants, the effect on individual line items or sub-totals, or the effect on key ratios. There may be circumstances where the auditor concludes that a classification misstatement is not material in the context of the financial report as a whole, even though it may exceed the materiality level or levels applied in evaluating other misstatements. For example, a misclassification between balance sheet line items may not be considered material in the context of the financial report as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet line items and the misclassification does not affect the income statement or any key ratios.
- A16. The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial report as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:
- Affects compliance with regulatory requirements;
  - Affects compliance with debt covenants or other contractual requirements;
  - Relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial report but is likely to have a material effect on future period's financial report;

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<sup>10</sup> The identification of a number of immaterial misstatements within the same account balance or class of transactions may require the auditor to reassess the risk of material misstatement for that account balance or class of transactions.

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- Masks a change in earnings or other trends, especially in the context of general economic and industry conditions;
- Affects ratios used to evaluate the entity's financial position, results of operations or cash flows;
- Affects segment information presented in the financial report (for example, the significance of the matter to a segment or other portion of the entity's business that has been identified as playing a significant role in the entity's operations or profitability);
- Has the effect of increasing management compensation, for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied;
- Is significant having regard to the auditor's understanding of known previous communications to users, for example, in relation to forecast earnings;
- Relates to items involving particular parties (for example, whether external parties to the transaction are related to members of the entity's management);
- Is an omission of information not specifically required by the applicable financial reporting framework but which, in the judgement of the auditor, is important to the users' understanding of the financial position, financial performance or cash flows of the entity; or
- Affects other information that will be communicated in documents containing the audited financial report (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial report. ASA 720 (Revised and Redrafted)<sup>11</sup> deals with the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial reports.

These circumstances are only examples; not all are likely to be present in all audits nor is the list necessarily complete. The

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<sup>11</sup> See ASA 720 (Revised and Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing an Audited Financial Report*.

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existence of any circumstances such as these does not necessarily lead to a conclusion that the misstatement is material.

- A17. ASA 240 (Revised and Redrafted)<sup>12</sup> explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial report.
- A18. The cumulative effect of immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's financial report. There are different acceptable approaches to the auditor's evaluation of such uncorrected misstatements on the current period's financial report. Using the same evaluation approach provides consistency from period to period.

*Considerations Specific to Public Sector Entities* (Ref: Para 11(a))

- A19. In the case of an audit of a public sector entity, the evaluation whether a misstatement is material may also be affected by legislation or regulation and additional responsibilities for the auditor to report other matters, including, for example, fraud.
- A20. Furthermore, issues such as public interest, accountability, probity and ensuring effective legislative oversight, in particular, may affect the assessment whether an item is material by virtue of its nature. This is particularly so for items that relate to compliance with regulation, legislation or other authority.

*Communication with Those Charged with Governance* (Ref: Para. 12)

- A21. If uncorrected misstatements have been communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, they need not be communicated again with those same person(s) in their governance role. The auditor nonetheless has to be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.<sup>13</sup>
- A22. Where there is a large number of individual immaterial uncorrected misstatements, the auditor may communicate the number and overall monetary effect of the uncorrected misstatements, rather than the details of each individual uncorrected misstatement.

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<sup>12</sup> See ASA 240 (Revised and Redrafted), paragraph 35.

<sup>13</sup> See ASA 260 (Revised and Redrafted), paragraph 9.

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A23. ASA 260 (Revised and Redrafted) requires the auditor to communicate with those charged with governance the written representations the auditor is requesting (see paragraph 14 of this Auditing Standard).<sup>14</sup> The auditor may discuss with those charged with governance the reasons for, and the implications of, a failure to correct misstatements, having regard to the size and nature of the misstatement judged in the surrounding circumstances, and possible implications in relation to a future financial report.

**Written Representation** (Ref: Para. 14)

A24. Because management and, where appropriate, those charged with governance are responsible for adjusting the financial report to correct material misstatements, the auditor is required to request them to provide a written representation about uncorrected misstatements. In some circumstances, management and, where appropriate, those charged with governance may not believe that certain uncorrected misstatements are misstatements. For that reason, they may want to add to their written representation words such as: “We do not agree that items ... and ... constitute misstatements because [description of reasons].” Obtaining this representation does not, however, relieve the auditor of the need to form a conclusion on the effect of uncorrected misstatements.

**Documentation** (Ref: Para. 15)

A25. The auditor’s documentation of uncorrected misstatements may take into account:

- (a) The consideration of the aggregate effect of uncorrected misstatements;
- (b) The evaluation of whether the materiality level or levels for particular classes of transactions, account balances or disclosures, if any, have been exceeded; and
- (c) The evaluation of the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (for example, debt covenants).

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<sup>14</sup> See ASA 260 (Revised and Redrafted), paragraph 12(c)(iii).

**Proposed Auditing Standard ASA 450**  
***Evaluation of Misstatements Identified during the Audit (Revised and Redrafted) (Re-issuance of ASA 320)***

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**Conformity with International Standards on Auditing**

This Auditing Standard conforms with International Standard on Auditing ISA 450 *Evaluation of Misstatements Identified during the Audit* (Revised and Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISA 450.

<b>Tables of Differences — ASA 450 (Revised and Redrafted) and Extant ASA 320</b>
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**Underlying Standard**

ISA 450 *Evaluation of Misstatements Identified during the Audit* (Revised and Redrafted) is used as the underlying Auditing Standard for the purpose of re-drafting this proposed Auditing Standard. The underlying Auditing Standard will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

**Summary of Main Differences — ASA 450 (Revised and Redrafted) and Extant ASA 320**

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and extant ASA 320.

**Requirements in ASA (Revised and Redrafted) not in Extant ASA**

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
<b>Objective</b>			
1	3	The objective of the auditor is to evaluate: <ul style="list-style-type: none"> <li>(a) The effect of identified misstatements on the audit; and</li> <li>(b) The effect of uncorrected misstatements, if any, on the financial report.</li> </ul>	New Objective.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
<b>Definitions</b>			
2	4	<p>For purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:</p> <p>(a) Misstatement means a difference between the amount, classification, presentation, or disclosure of a reported financial report 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. (Ref: Para. A1)</p> <p>When the auditor expresses an opinion on whether the financial report give a true and fair view or is presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s judgement, are necessary for the financial report to give a true and fair view or present fairly, in all material respects.</p> <p>(b) Uncorrected misstatements means misstatements that the auditor has accumulated during the audit and that have not been corrected.</p>	New Definitions.
<b>Consideration of Identified Misstatements as the Audit Progresses</b>			
3	6	<p>The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:</p> <p>(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</p>	<p>Elevation of extant ASA Explanatory Guidance</p> <p>[Extant ASA 320 para 33—equivalent Explanatory Guidance]</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		<p>material; or (Ref: Para. A4)</p> <p>(b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ASA 320 (Revised and Redrafted). (Ref: Para. A5)</p>	
4	7	If, at the auditor's request, management has examined a class of transactions, account balances or disclosures and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. (Ref: Para. A6)	<p>Elevation of extant ASA Explanatory Guidance</p> <p>[Extant ASA 320 para 33—equivalent Explanatory Guidance]</p>
<b>Communication and Correction of Misstatements</b>			
5	8	The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, <u>unless prohibited by law or regulation</u> . The auditor shall request management to correct those misstatements. (Ref: Para. A7-A9)	<p>(1) <u>Shaded text</u> represents additional wording not contained in the extant ASA.</p> <p>(2) Unshaded text is equivalent in meaning to extant ASA.</p> <p>[Extant ASA 320 para 24—equivalent Requirement].</p>
6	9	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 report as a whole is free from material misstatement. (Ref: Para. A10)	No extant ASA equivalent.



Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
<b>Evaluating the Effect of Uncorrected Misstatements</b>			
7	10	Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with ASA 320 (Revised and Redrafted) to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. A11-A12)	Elevation of extant ASA Explanatory Guidance [Extant ASA 320 para 29(a)—equivalent Explanatory Guidance]
<b>Communication with Those Charged with Governance</b>			
8	12	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. (Ref: Para. A21-A23)	No extant ASA equivalent.
9	13	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 report as a whole.	No extant ASA equivalent.
<b>Written Representation</b>			
10	14	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 report as a whole. A summary of such items shall be included in or attached to the written representation. (Ref: Para. A24)	(1) <b>Shaded text</b> represents additional wording not contained in the extant ASA.  (2) Unshaded text is equivalent in meaning to extant ASA.  [Extant ASA 320 para 35—equivalent Requirement].

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
<b>Documentation</b>			
11	15	The audit documentation shall include: (Ref: Para. A25) <ul style="list-style-type: none"> <li>(a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5);</li> <li>(b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs 5, 8 and 12); and</li> <li>(c) The auditor’s conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 11).</li> </ul>	No extant ASA equivalent.

**Requirements in Extant ASA not in ASA (Revised and Redrafted)**

Item #	Extant ASA Para. #	Extant ASA Requirement	Commentary
<b>Not Retained in ASA [Revised &amp; Redrafted]</b>			
<b>Reporting Responsibilities</b>			
1	34	<p>The auditor shall express a modified opinion in accordance with ASA 701 <i>Modifications to the Auditor’s Report</i>, if:</p> <p>(a) those charged with governance refuse to adjust the financial report for material misstatements; and</p> <p>(b) the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material.</p>	<p>(1) Unshaded text represents Requirement covered in another Auditing Standard. [ASA 705 (Revised and Redrafted) para 6—equivalent Requirement]:</p> <p>“Circumstances When a Modification to the Auditor’s Opinion Is Required</p> <p>6. The auditor shall modify the opinion in the auditor’s report when:</p> <p>(a) The auditor concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement; or (Ref: Para. A2-A7)</p> <p>(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement. (Ref: Para. A8-A12)”</p> <p>(2) Shaded text represents specific wording not contained in ASA 705 (Revised and Redrafted).</p> <p>Substance of its meaning is incorporated into above ASA 705 (Revised and Redrafted) Requirement.</p>