

## SUPPLEMENT TO EXPOSURE DRAFT PROPOSED ISA 450 (REDRAFTED): MAPPING DOCUMENT

This supplement to the IAASB Exposure Draft, Proposed ISA 450 (Redrafted), “Evaluation of Misstatements Identified during the Audit,” has been prepared by IAASB staff to demonstrate how the material in the ISA 450 has been reflected in proposed ISA 450 (Redrafted).

Exhibit 1 identifies present tense sentences in ISA 450 and indicates whether they are treated as a requirement or as application material in proposed ISA 450 (Redrafted).

Exhibit 2 maps the text of ISA 450 (which may have been reworded as necessary) to proposed ISA 450 (Redrafted). It is not proposed that any of the text in ISA 450 be eliminated or repositioned.

The material included herein is provided only to assist readers of the Exposure Draft. It is for information purposes only and does not form part of the Exposure Draft. The IAASB has not approved, disapproved, or otherwise acted upon this supplement. It is neither authoritative nor an official pronouncement nor statement of the IAASB.

### Exhibit 1

Para	Present tense statements in ISA 450	Require- ment	New para- graph	Rationale and comment (paragraph references are to proposed ISA 450 (Redrafted))
6.	... Whenever there is any uncertainty about whether one or more items are “clearly trivial,” the auditor presumes that the matter is not “clearly trivial.”	No		Considered application material – see paragraph A1.
10.	It may be necessary for management to examine a class of transactions, account balance or disclosure to identify and correct misstatements therein. After management has examined a class of transactions, account balance or disclosure and corrected misstatements that were found, the auditor performs further audit procedures to reevaluate the amount of misstatements.	Yes	8	
15.	If management refuses to correct some or all of the misstatements communicated to it by the auditor, the auditor obtains an understanding of management’s reasons for not making the corrections and takes that into account when evaluating whether the financial statements as a whole are free from material misstatement.	Yes	10	
18.	... In communicating the effect that material uncorrected misstatements may have on the auditor’s report, the auditor addresses them ...	Yes	15	
19.	The auditor discusses with those charged with governance	Yes	16	

	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, including possible implications in relation to future financial statements.			
23.	ISA 320 explains that, as the audit progresses, the auditor revises the materiality level or levels in the event of becoming aware of information during the audit that would have caused the auditor to have determined different materiality level or levels initially. Thus, any significant revision of the materiality level or levels is likely to have been made before the auditor applies the materiality level or levels in evaluating the effect of uncorrected misstatements. However, as explained in ISA 320, if the materiality level or levels are revised to lower amount or amounts, the auditor also reconsiders the lower amount or amounts determined for purposes of assessing risks of material misstatements and designing further audit procedures, and the appropriateness of the nature, timing and extent of further audit procedures to ensure that sufficient appropriate audit evidence is obtained on which to base the audit opinion.	No		Cross-reference to requirements in another ISA is considered application material for purposes of this ISA – see paragraph A11.
25.	Before considering the aggregate effect of uncorrected misstatements, the auditor considers each misstatement separately to ...	No		Considered application material – see paragraph A12-A14.
25(b)	It may be appropriate to offset immaterial misstatements within an account balance or class of transactions; however, the auditor considers the risk that further undetected misstatements may exist before concluding that offsetting such immaterial misstatements is appropriate. <sup>1</sup>	No		Considered application material – see paragraph A13.
26.	The auditor also considers, and communicates 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 statements as a whole ...	Yes	14, 17	
26.	... Whichever approach is followed by the auditor, it is important that it be followed consistently from period to period.	No		Considered application material – see paragraph A17.
28.	If the auditor believes that a misstatement is, or may be, the result of fraud, the auditor considers the implications of the misstatement in relation to other aspects of the audit	No		Cross-reference to requirements in another ISA is considered

<sup>1</sup> The identification of a number of immaterial misstatements within an 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.

	as described in ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements,” even if the effect of the misstatement is not material to the financial statements.			application material for purposes of this ISA – see paragraph A16.
30.	In considering the qualitative aspects of the entity’s accounting practices, the auditor recognizes that management makes a number of judgments about the amounts and disclosures in the financial statements. During the audit, the auditor is alert for possible bias in management’s judgments ...	No		Considered application material – see paragraph A22.

**Mapping Document**

**Exhibit 2**

ISA 450	New paragraph
<b>Introduction</b>	
<p>1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on evaluating misstatements identified during the audit of financial statements. ISA 320, “Materiality in Planning and Performing an Audit” establishes standards and provides guidance on the determination of materiality and its application in planning and performing an audit of financial statements. This ISA explains how materiality is applied in evaluating misstatements identified during the audit.</p>	1
<p>2. <b>The auditor should evaluate the effect of uncorrected misstatements on the financial statements and whether the financial statements as a whole are free of material misstatement.</b> Uncorrected misstatements are misstatements that the auditor has accumulated during the audit and that management has not corrected.</p>	3, 4(f)
<b>Misstatements</b>	
<p>3. A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement 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 and may result from:</p> <ul style="list-style-type: none"> <li>(a) An inaccuracy in gathering or processing data from which the financial statements are prepared;</li> <li>(b) An omission of an amount or disclosure;</li> <li>(c) An incorrect accounting estimate arising from overlooking or clear misinterpretation of facts; and</li> <li>(d) Management’s judgments concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.</li> </ul> <p>When the auditor expresses an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s judgment, are necessary for the financial statements to give a true and fair view or present fairly, in all material respects.</p>	4(d)

<p>4. The term “error” refers to an unintentional misstatement in the financial statements. The term “fraud” refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Two types of intentional misstatements are relevant to the auditor, that is, misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.</p>	<p>4(a)  The term “fraud” is defined in ISA 240.</p>
<p><b>Accumulation of Identified Misstatements</b></p>	
<p>5. <b>The auditor should accumulate misstatements identified during the audit, other than those that are clearly trivial.</b></p>	<p>5</p>
<p>6. 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 statements. “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 used in planning and performing the audit, 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. Whenever there is any uncertainty about whether one or more items are “clearly trivial,” the auditor presumes that the matter is not “clearly trivial.”</p>	<p>A1</p>
<p>7. To assist the auditor in considering the effects of misstatements accumulated during the audit and in communicating them to management and those charged with governance, it is useful to distinguish between factual misstatements, judgmental misstatements and projected misstatements.</p> <ul style="list-style-type: none"> <li>• Factual misstatements are misstatements about which there is no doubt.</li> <li>• Judgmental misstatements are differences arising from management’s judgments concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate.</li> <li>• 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 are set out in ISA 530, “Audit Sampling and Other Means of Testing.”</li> </ul>	<p>A2, 4(b), 4(c), 4(e)</p>
<p><b>Considerations as the Audit Progresses</b></p>	
<p>8. <b>The auditor should consider whether the overall audit strategy and audit plan need to be revised if the nature of identified misstatements and the circumstances of their occurrence are indicative that other misstatements may exist that, when aggregated with</b></p>	<p>6, A3</p>

<p><b>misstatements accumulated during the audit, could be material.</b> The auditor cannot simply assume that a misstatement is an isolated occurrence. Evidence that other misstatements may exist include, for example, where the auditor identifies that a misstatement arose from a breakdown in internal control or from inappropriate assumptions or valuation methods that have been widely applied by the entity.</p>	
<p>9. <b>The auditor should also determine whether the overall audit strategy and audit plan need to be revised if the aggregate of misstatements accumulated during the audit approaches the materiality level or levels.</b> In such circumstances, there may be a greater than an acceptably low level of risk that possible undetected misstatements, when taken with the aggregate of misstatements accumulated during the audit, could exceed the materiality level. Undetected misstatements could possibly exist because of the presence of sampling risk (the risk that the auditor’s conclusion based on a sample may be different from the conclusion if the entire population was subjected to the same audit procedure) and non-sampling risk (the risk that the auditor may misinterpret audit evidence and thus not recognize misstatements when they occur).</p>	7, A4
<p>10. It may be necessary for management to examine a class of transactions, account balance or disclosure to identify and correct misstatements therein. After management has examined a class of transactions, account balance or disclosure and corrected misstatements that were found, the auditor performs further audit procedures to reevaluate the amount of misstatements.</p>	8
<p><b>Communication and Correction of Misstatements</b></p>	
<p>11. <b>The auditor should communicate all misstatements accumulated during the audit to the appropriate level of management on a timely basis and request management to correct them.</b></p>	9
<p>12. 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 they disagree, 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.</p>	A6
<p>13. Laws or regulations may prevent the auditor from communicating 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 such circumstances the auditor may consider seeking legal advice.</p>	A7
<p>14. The correction by management of all misstatements communicated by the auditor assists management in maintaining accurate accounting books and records and reduces the risks of material misstatement of financial statements because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.</p>	A8
<p>15. If management refuses to correct some or all of the misstatements communicated to it by the auditor, the auditor obtains an understanding of management’s reasons for not making the corrections and takes that into account when evaluating whether the financial statements as a whole</p>	10

are free from material misstatement. (See paragraphs 29-30.)	
<i>Management Representations</i>	
16. <b>The auditor should obtain written representation from management that it believes the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items should be included in or attached to the written representations.</b>	11
17. Because management is responsible for adjusting the financial statements to correct material misstatements, it is important that the auditor obtains written representation from management that any uncorrected misstatements other than those that are clearly trivial are in management’s opinion immaterial, both individually and in the aggregate. In some circumstances, management may not believe that certain of the uncorrected misstatements are misstatements. For that reason, management may want to add to their written representation words such as: “We do not agree that items ... and ... constitute misstatements because [description of reasons].”	A9
<b>Communications with Those Charged with Governance</b>	
18. <b>The auditor should communicate with those charged with governance<sup>1</sup> uncorrected misstatements and the effect that they may have on the auditor’s report, and request their correction.</b> The written representation obtained from management in accordance with paragraph 16 forms part of this communication. In communicating the effect that material uncorrected misstatements may have on the auditor’s report, the auditor addresses them individually. Where there is a large number of small 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.	15, A20
19. The auditor discusses 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 misstatements judged in the surrounding circumstances, including possible implications in relation to future financial statements.	16
20. To reduce the possibility of misunderstandings, the auditor may request a written representation from those charged with governance that explains why uncorrected misstatements brought to their attention have not been corrected. Obtaining this representation does not, however, relieve the auditor of the need to form a conclusion on the effect of uncorrected misstatements.	A21

<sup>1</sup> In accordance with ISA 260 (Revised), “Communication with Those Charged with Governance,” if this matter has been communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matter need not be communicated again with those same person(s) in their governance role.

<p><b>Evaluating the Effect of Uncorrected Misstatements</b></p>	
<p>21. <b>Prior to evaluating the effect of uncorrected misstatements, the auditor should reassess the materiality level or levels used in planning and performing the audit to confirm whether they remain appropriate in the context of the entity’s actual financial results.</b></p>	<p>12</p>
<p>22. The auditor’s initial determination of the materiality level or levels is often based on estimates of the entity’s financial results, because the actual financial results may not yet be known. Prior to the auditor’s evaluation of the effect of uncorrected misstatements, the auditor therefore reassesses the materiality level or levels used in planning and performing the audit based on the actual financial results.</p>	<p>A10</p>
<p>23. ISA 320 explains that, as the audit progresses, the auditor revises the materiality level or levels in the event of becoming aware of information during the audit that would have caused the auditor to have determined different materiality level or levels initially. Thus, any significant revision of the materiality level or levels is likely to have been made before the auditor applies the materiality level or levels in evaluating the effect of uncorrected misstatements. However, as explained in ISA 320, if the materiality level or levels are revised to lower amount or amounts, the auditor also reconsiders the lower amount or amounts determined for purposes of assessing risks of material misstatements and designing further audit procedures, and the appropriateness of the nature, timing and extent of further audit procedures to ensure that sufficient appropriate audit evidence is obtained on which to base the audit opinion.</p>	<p>A11</p>
<p>24. <b>The auditor should evaluate whether uncorrected misstatements are material, individually or in aggregate. In making this evaluation, the auditor should consider the size and nature of the misstatements, both in relation to particular classes of transactions, account balances and disclosures and the financial statements as a whole, and the particular circumstances of their occurrence.</b></p>	<p>13</p>
<p>25. Before considering the aggregate effect of uncorrected misstatements, the auditor considers each misstatement separately to:</p> <ul style="list-style-type: none"> <li>(a) 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;</li> <li>(b) Evaluate whether it is appropriate to offset misstatements. 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 statements 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 immaterial misstatements within an account balance or class of transactions; however, the</li> </ul>	<p>A12-A14</p>

<p>auditor considers the risk that further undetected misstatements may exist before concluding that offsetting such immaterial misstatements is appropriate.<sup>2</sup></p> <p>(c) Evaluate the financial statement effect of classification misstatements. The determination of whether a classification misstatement is material requires the use of professional judgment and 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 on 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 statements 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 statements 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.</p>	
<p>26. The auditor also considers, and communicates 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 statements as a whole. The cumulative effect of immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's financial statements. There are different acceptable approaches to this consideration. Whichever approach is followed by the auditor, it is important that it be followed consistently from period to period.</p>	<p>14, 17, A17</p>
<p>27. 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 the materiality level for the financial statements as a whole (or for a particular class of transactions, account balance or disclosure, if any). Circumstances that may affect the evaluation include the extent to which the misstatement:</p> <ul style="list-style-type: none"> <li>• Affects compliance with regulatory requirements;</li> <li>• Affects compliance with debt covenants or other contractual requirements;</li> <li>• Relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements.</li> <li>• Masks a change in earnings or other trends, especially in the context of general economic and industry conditions;</li> </ul>	<p>A15</p>

<sup>2</sup> The identification of a number of immaterial misstatements within an 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.

<ul style="list-style-type: none"> <li>• Affects ratios used to evaluate the entity’s financial position, results of operations or cash flows;</li> <li>• Affects segment information presented in the financial statements (e.g., 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);</li> <li>• Has the effect of increasing management compensation, for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied;</li> <li>• Is a misclassification between certain account balances affecting items disclosed separately in the financial statements (e.g., misclassification between operating and non-operating income or recurring and non-recurring income items; or a misclassification between restricted and unrestricted resources in a not-for-profit entity);</li> <li>• Is significant having regard to the auditor’s understanding of known previous communications to users, for example in relation to forecast earnings;</li> <li>• Relates to items involving particular parties (e.g., whether external parties to the transaction are related to members of the entity’s management);</li> <li>• Is an omission of information not specifically required by the applicable financial reporting framework but which, in the judgment of the auditor, is important to the users’ understanding of the financial position, financial performance or cash flows of the entity;</li> <li>• Affects other information that will be communicated in documents containing the audited financial statements (e.g., 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 statements. ISA 720, “Other Information in Documents Containing Audited Financial Statements” establishes standards and provides guidance on the auditor’s consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements.</li> </ul> <p>These circumstances are only examples; not all are likely to be present in all audits nor is the list necessarily complete. The existence of any circumstances such as these does not necessarily lead to a conclusion that the misstatement is material.</p>	
<p>28. If the auditor believes that a misstatement is, or may be, the result of fraud, the auditor considers the implications of the misstatement in relation to other aspects of the audit as described in ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements,” even if the effect of the misstatement is not material to the financial statements.</p>	<p>A16</p>

<p><b>Evaluating Whether the Financial Statements as a Whole are Free of Material Misstatement</b></p>	
<p>29. <b>The auditor should evaluate whether the financial statements as a whole are free of material misstatement. In making this evaluation, the auditor should consider both the results of the evaluation of the uncorrected misstatements and the qualitative aspects of the entity’s accounting practices.</b></p>	<p>18</p>
<p>30. In considering the qualitative aspects of the entity’s accounting practices, the auditor recognizes that management makes a number of judgments about the amounts and disclosures in the financial statements. During the audit, the auditor is alert for possible bias in management’s judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, cause the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that the auditor takes into account when evaluating whether the financial statements as a whole are materially misstated include the following:</p> <ul style="list-style-type: none"> <li>• The selective correction of misstatements brought to management’s attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).</li> <li>• Possible management bias in the making of accounting estimates.</li> </ul>	<p>A22</p>
<p>31. [Proposed] ISA 540 (Revised), “Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements and Disclosures)” addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor’s evaluation of whether the financial statements as a whole are free of material misstatement.</p>	<p>A23</p>
<p>32. <b>If the auditor concludes that, or is unable to conclude whether, the financial statements as a whole are materially misstated, the auditor should consider the effect thereof on the auditor’s report.</b></p>	<p>19</p>
<p>33. ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report,” establishes standards and provides guidance on circumstances that may result in a modification to the auditor’s opinion on the financial statements, the type of opinion appropriate in the circumstances, and the content of the auditor’s report when the auditor’s opinion is modified.</p>	<p>A24</p>
<p><b>Documentation</b></p>	
<p>34. <b>The auditor should document:</b></p> <p>(a) <b>The amount below which misstatements would be regarded as clearly trivial.</b></p>	<p>20</p>

<p>(b) <b>All misstatements accumulated during the audit, and whether they have been corrected by management; and</b></p> <p>(c) <b>The auditor’s conclusion as to whether uncorrected misstatements, individually or in aggregate, cause the financial statements as a whole to be materially misstated, and the basis for that conclusion.</b></p>	
<p>35. Misstatements are documented in a manner that allows the auditor to:</p> <p>(a) Separately consider the effects of factual misstatements, judgmental misstatements and projected misstatements;</p> <p>(b) Consider the aggregate effect of uncorrected misstatements on the financial statements as a whole ;</p> <p>(c) Evaluate whether the materiality level for a particular class of transactions account balance or disclosure, if any, has been exceeded; and</p> <p>(d) Evaluate the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (e.g., debt covenants).</p>	<p>20(b), A25</p>
<p><b>Public Sector Perspective</b></p> <p>1. <i>In the public sector, issues such as public interest, accountability, probity and ensuring effective legislative oversight, in particular, are considered when assessing 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.</i></p> <p>2. <i>In evaluating the materiality of a misstatement, the public sector auditor considers any legislation or regulation and additional responsibilities to report fraud, waste or abuse which may affect that evaluation.</i></p>	<p>A18-A19</p>