

## PROPOSED INTERNATIONAL STANDARD ON AUDITING 450

(REDRAFTED)

### EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

(Effective for audits of financial statements for periods beginning on or after ~~1 January~~ December 15, 2009)\*

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\* — See footnote 5.

International Standard on Auditing (ISA) 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit” should be read in the context of the ~~“Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,”~~ [proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing,” which sets out the authority of ISAs. **[ISSUE H]**

**Note: Changes highlighted in yellow are those proposed as a result of proposed ISA 700 (Redrafted). [ISSUE C]**

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the ~~evaluation of~~ auditor's responsibility to evaluate the effect of identified misstatements ~~identified during on~~ the audit and of uncorrected misstatements, if any, on the financial statements. [Proposed] ISA 700 (Redrafted) 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 taken as a whole are free from material misstatement. The auditor's conclusion required by [proposed] ISA 700 (Redrafted) takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this ISA.<sup>1</sup> ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit"<sup>2</sup> deals with the ~~determination of~~ auditor's responsibility to apply materiality ~~and its application appropriately~~ in planning and performing an audit of financial statements. This ISA explains how materiality is applied in evaluating misstatements identified during the audit.

### Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after ~~[date]~~ December 15, 2009.<sup>3</sup>

### 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 statements and whether the financial statements as a whole are free from material misstatement. [ISSUE C] [ISSUE D]

### Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Error – An unintentional misstatement in the financial statements.
  - (b) ~~Factual misstatements~~ Misstatements about which there is no doubt. [ISSUE E]

<sup>1</sup> [Proposed] ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements," paragraphs [8-9].

<sup>2</sup> ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit."

<sup>3</sup> ~~This date will not be earlier than December 15, 2008.~~

~~(e) Judgmental misstatements – 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. [ISSUE E]~~

~~(d**b**) Misstatement – 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. (Ref: Para. A1) [ISSUE G]~~

and may result from:

~~(i) An inaccuracy in gathering or processing data from which the financial statements are prepared;~~

~~(ii) An omission of an amount or disclosure;~~

~~(iii) An incorrect accounting estimate arising from overlooking or clear misinterpretation of facts; and~~

~~(iv) Management’s judgments concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.~~

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.

~~(e) Projected misstatements – 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 ISA 530, “Audit Sampling and Other Means of Testing.” [ISSUE E]~~

~~(f**c**) Uncorrected misstatements – Misstatements that the auditor has accumulated during the audit and that management has not corrected.~~

## Requirements

### Accumulation of Identified Misstatements

5. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial, ~~distinguishing between factual misstatements, judgmental misstatements and projected misstatements~~. (Ref: Para. A12-A23) [ISSUE E] [ISSUE G]

### Considerations of Identified Misstatements as the Audit Progresses

6. The auditor shall ~~consider~~ 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 are indicative that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material;~~;~~ and (Ref: Para. A34)
- 7.(b) ~~The auditor shall 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 determined in accordance with ISA 320 (Revised and Redrafted).<sup>4</sup> (Ref: Para. A45) **[ISSUE K.1]**
87. If ~~management, in response to the auditor's findings or at the auditor's request, management~~ has examined a class of transactions, account balance or disclosure and corrected misstatements that were ~~found~~ detected, the auditor shall perform ~~further~~ additional audit procedures to ~~reevaluate the amount of~~ determine whether misstatements remaining, ~~if any~~. (Ref: Para. A56)

### Communication and Correction of Misstatements

98. The auditor shall communicate on a timely basis all misstatements accumulated during the audit ~~to~~ with the appropriate level of management ~~on a timely basis, unless prohibited by law or regulation.~~<sup>5</sup> and The auditor shall request management to that they correct them. (Ref: Para. A67-A89)
109. If management refuses to correct some or all of the misstatements communicated ~~to it~~ 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, in accordance with [proposed] ISA 700 (Redrafted), whether the financial statements as a whole are free from material misstatement.<sup>6</sup> ~~(See paragraph 17.)~~

### Management Written Representations

110. The auditor shall ~~obtain~~ request a written representation from management whether 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 shall be included in or attached to the written representations. (Ref: Para. A910)

### Evaluating the Effect of Uncorrected Misstatements

121. Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess ~~the materiality level or levels used~~ d in planning and performing the audit determined in accordance with [proposed] ISA 320 (Redrafted)<sup>7</sup> to confirm whether ~~they~~ it remains appropriate in the context of the entity's actual financial results. (Ref: Para. A1011-A1012)
1312. The auditor shall ~~evaluate~~ determine whether uncorrected misstatements are material, individually or in aggregate. In making this ~~evaluation~~ determination, the auditor shall consider:

<sup>4</sup> ISA 320 (Revised and Redrafted), paragraphs 11-12.

<sup>5</sup> ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance," paragraph A4.

<sup>6</sup> [Proposed] ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements," paragraph [8].

<sup>7</sup> ISA 320 (Revised and Redrafted), paragraphs 11-12.

- (a) ~~¶~~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; and (Ref: Para. A1213-A1617, A19-A20)
- ~~14.(b)~~ ~~The auditor shall also consider~~ ¶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. (Ref: Para. A1718) [ISSUE I] [ISSUE K.2]

#### *Communication with Those Charged with Governance*

~~15~~13. The auditor shall communicate with those charged with governance<sup>8</sup> uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, ~~and request their correction, unless prohibited by law or regulation.~~<sup>9</sup> The auditor's communication shall:

- (a) Identify material uncorrected misstatements individually; and (Ref: Para. A21)
- (b) Include ¶the written representation obtained from management in accordance with paragraph ~~11~~ 10 ~~shall form part of this communication. In communicating the effect that material uncorrected misstatements may have on the opinion in the auditor's report, the auditor shall address them individually.~~

The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. A2022-A23)

~~16. The auditor shall communicate 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, including possible implications in relation to future financial statements. (Ref: Para. A21) [ISSUE F]~~

~~17~~14. 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 statements as a whole.

#### **Evaluating Whether the Financial Statements as a Whole are Free from Material Misstatement [ISSUE C]**

~~18. The auditor shall evaluate whether the financial statements as a whole are free from material misstatement. In making this evaluation, the auditor shall consider both the results of the evaluation of the uncorrected misstatements and the qualitative aspects of the entity's accounting practices. (Ref: Para. A22-23)~~

<sup>8</sup> In accordance with ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance," paragraph 9, 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. 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>9</sup> See footnote 5.

~~19. If the auditor concludes that, or is unable to conclude whether, the financial statements as a whole are materially misstated, the auditor shall consider the effect thereof on the opinion in the auditor's report. (Ref: Para. A24)~~

## Documentation

~~20~~15. The auditor shall document: (Ref: Para. A24)

- (a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5);
- (b) All misstatements accumulated during the audit, ~~distinguishing between factual misstatements, judgmental misstatements and projected misstatements,~~ and whether they have been corrected by management (paragraphs 5, 8 and 13); and **ISSUE E**
- (c) 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 (paragraph 12). (~~Ref: Para. A25~~)

\* \* \*

## Application and Other Explanatory Material

### Misstatements (Ref: Para. 4(b))

A1. Misstatements may result from:

- (a) An inaccuracy in gathering or processing data from which the financial statements are prepared;
- (b) An omission of an amount or disclosure;
- (c) An incorrect accounting estimate arising from overlooking or clear misinterpretation of facts; and
- (d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

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

~~A1~~2. 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. When there is any uncertainty about whether one or more items are "clearly trivial," the matter is considered not to be "clearly trivial."

~~A2~~3. **ISSUE E** 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 ~~The distinction~~ between factual misstatements, judgmental

misstatements and projected misstatements ~~assists the auditor in considering the effects of misstatements accumulated during the audit and in communicating them to management and those charged with governance.~~

- Factual misstatements are misstatements about which there is no doubt.
- Judgmental misstatements are differences arising from the judgments 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 [proposed] ISA 530 (Redrafted).<sup>10</sup>

## **[ISSUE I]**

### **Considerations of Identified Misstatements as the Audit Progresses** (Ref: Para. 6-87)

A34. 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 internal control or from inappropriate assumptions or valuation methods that have been widely applied by the entity.

A45. If the aggregate of misstatements accumulated during the audit approaches ~~the materiality level or levels~~, 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 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).~~<sup>11</sup>

A56. The auditor may request management to examine a class of transactions, account balance or disclosure 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 statements. 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. 8-9-10)

A67. 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

<sup>10</sup> [Proposed] ISA 530 (Redrafted), "Audit Sampling," paragraphs [14-15].

<sup>11</sup> [Proposed] ISA 530 (Redrafted), paragraphs [5(c) and (d)].



the one that has responsibility and authority to evaluate the misstatements and to take the necessary action.

A78. Laws or regulations may ~~prevent~~ restrict the auditor's ~~from communicating~~ 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 circumstances it cases,~~ the auditor may consider ~~be appropriate for the auditor to seeking~~ legal advice.

A89. The correction by management of all misstatements, including those communicated by the auditor, assists enables management ~~in to~~ maintaining accurate accounting books and records and reduces the risks of material misstatement of future financial statements because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.

#### Management Written Representations (Ref: Para. ~~11-10~~)

A910. Because management is responsible for adjusting the financial statements to correct material misstatements, ~~it is important that the auditor obtain~~ is required to request ~~written representation from management to provide a written representation~~ whether ~~any~~ uncorrected misstatements, ~~other than those that are clearly trivial,~~ are in management's opinion are 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~~ its written representation words such as: "We do not agree that items ... and ... constitute misstatements because [description of reasons]."

#### **Evaluating the Effect of Uncorrected Misstatements** (Ref: Para. ~~11-12-14~~)

A1011. The auditor's ~~initial~~ determination of ~~the materiality level or levels~~ in accordance with ISA 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.<sup>12</sup> Therefore, prior to the auditor's evaluation of the effect of uncorrected misstatements, it may be necessary to reassess ~~the materiality level or levels~~ used in planning and performing the audit ~~are reassessed~~ based on the actual financial results.

A1112. ISA 320 (Revised and Redrafted) explains that, as the audit progresses, ~~the materiality level or levels are~~ 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 materiality ~~level or levels~~ initially.<sup>13</sup> 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 auditor's reassessment of the materiality level or levels in accordance with paragraph 11 of this ISA are revised gives rise to a lower amount or amounts materiality, the lower amount or amounts determined for purposes of assessing risks of material misstatements and designing further audit procedures,

<sup>12</sup> ISA 320 (Revised and Redrafted), paragraphs 11-12.

<sup>13</sup> ISA 320 (Revised and Redrafted), paragraph 14.

operational materiality, and the appropriateness of the nature, timing and extent of the further audit procedures, are reconsidered so as to ~~ensure that~~ obtain sufficient appropriate audit evidence ~~is obtained~~ on which to base the audit opinion.

A1213. Each individual misstatement is considered ~~separately~~ 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.

A1314. 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~~ the same account balance or class of transactions; however, the risk that further undetected misstatements may exist is considered before concluding that offsetting ~~such~~ even immaterial misstatements is appropriate.<sup>14</sup>

A1415. Determining whether a classification misstatement is material ~~requires the use~~ involves the exercise 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.

A1516. 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:

- Affects compliance with regulatory requirements;
- Affects compliance with debt covenants or other contractual requirements; ~~or~~
- 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; ~~;~~
- Masks a change in earnings or other trends, especially in the context of general economic and industry conditions;

<sup>14</sup> The identification of a number of immaterial misstatements within ~~an~~ 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.

- Affects ratios used to evaluate the entity's financial position, results of operations or cash flows;
- Affects segment information presented in the financial statements (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 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);~~
- 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 judgment 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 statements (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 statements. [Proposed] ISA 720 (Redrafted),<sup>15</sup> ~~"Other Information in Documents Containing Audited Financial Statements"~~ deals with the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements.

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.

A1617. ~~ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"~~ 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 ~~effect~~ of size of the misstatement is not material in relation to the financial statements.

A1718. 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 the auditor's evaluation of such uncorrected misstatements on the

<sup>15</sup> [Proposed] ISA 720 (Redrafted), "Other Information in Documents Containing Audited Financial Statements."

current period's financial statements. Using the same evaluation approach provides consistency from period to period. [ISSUE K.2]

*Considerations Specific to Public Sector Entities* (Ref: Para. ~~12-143~~)

A1819. In the case of an audit of a public sector entity, the evaluation of the materiality of a misstatement may also be affected by legislation or regulation and additional responsibilities for the auditor to report other matters, including, for example, fraud.

A1920. Furthermore, issues such as public interest, accountability, probity and ensuring effective legislative oversight, in particular, ~~are considered when assessing~~ 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. ~~15-16~~ 13-14)

A2021. Where there is a large number of individual small 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.

A22. 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 future financial statements. [ISSUE F]

A2123. 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.

**Evaluating Whether the Financial Statements as a Whole are Free from Material Misstatement** (Ref: Para. ~~18-19~~) [ISSUE C]

A22. 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 may affect the auditor's evaluation whether the financial statements as a whole are materially misstated include the following:

- 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).
- Possible management bias in the making of accounting estimates.

A23. 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 from material misstatement.~~

~~A24.ISA 705, "Modifications to the Opinion in the Independent Auditor's Report" deals with 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.~~

**Documentation** (Ref: Para. ~~20~~15)

~~A25~~24. The following factors may affect the manner in which the auditor documents the auditor's conclusion, and the basis thereof, as to whether uncorrected misstatements, individually or in the aggregate, cause the financial statements as a whole to be materially misstated:

- (a) The consideration of the aggregate effect of uncorrected misstatements on the financial statements as a whole;
- (b) The evaluation of whether the materiality level for a particular class of transactions account balance or disclosure, if any, has 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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