

INTOSAI



Practice Note to ISA 450

Evaluation of Misstatements Identified during the Audit

INTOSAI



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Practice Note¹ to International Standard on Auditing (ISA) 450

Evaluation of Misstatements Identified during the Audit

Background

This Practice Note provides supplementary guidance on ISA 450 – Evaluation of Misstatements Identified during the Audit. It is read together with the ISA. ISA 450 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. ISA 700² deals with the auditor's responsibility, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. The auditor's conclusion required by ISA 700 takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with ISA 450. ISA 320³ deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of financial statements.

Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) Overall Considerations.
 - (b) Evaluating the Effect of Uncorrected Misstatements.
 - (c) Written Representations.
 - (d) Specific Considerations for Public Sector Auditors with a Judicial Role.

Applicability of the ISA in Public Sector Auditing

- P2. ISA 450 is applicable to auditors of public sector entities in their role as auditors of the financial statements.

¹ All Practice Notes are considered together with ISSAI 1000, "General Introduction to the INTOSAI Financial Audit Guidelines."

² ISA 700, "Forming an Opinion and Reporting on Financial Statements," paragraphs 10-11.

³ ISA 320, "Materiality in Planning and Performing an Audit."

Additional Guidance on Public Sector Issues

- P3. ISA 450 contains application and other explanatory material with considerations specific to public sector entities in paragraphs A19 and A20 of the ISA.

Overall Considerations

- P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The objectives may include additional auditing and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budgets and accountability frameworks and/or reporting on the effectiveness of internal control. In addition to evaluating misstatements, public sector auditors may also evaluate instances of non-compliance with authorities and report on the effectiveness of internal control. When public sector auditors have such additional reporting responsibilities, each reporting responsibility is evaluated separately.

Evaluating the Effect of Uncorrected Misstatements

- P5. In applying paragraph 11 of the ISA public sector auditors with additional reporting responsibilities related to non-compliance with authorities and control deficiencies separately evaluate each of these objectives. However, misstatements, instances of non-compliance with authorities and control deficiencies can be interrelated, potentially increasing the risk to each objective.
- P6. Paragraphs 12 to 13 of the ISA deal with communication of uncorrected misstatements with those charged with governance. Where appropriate to the public sector auditors' mandate this communication may include instances of non-compliance with authorities and control deficiencies. Public sector auditors may also need to communicate misstatements, instances of non-compliance with authorities and control deficiencies to additional parties such as government officials.
- P7. When communicating with those charged with governance or with additional parties as described in paragraph P6 above, public sector auditors may be expected to communicate all misstatements, even those that have been corrected by the entity. When communicating with those charged with governance, public sector auditors use ways of reporting relevant to their environment. Public sector auditors may also be called upon to testify before the legislature on the results of the financial statement audit.

Written Representation

- P8. Paragraph 14 of the ISA requires the auditor to obtain written representation that management considers the effects of uncorrected misstatements on the financial statements to be immaterial. Where public sector auditors have additional responsibilities for compliance with authorities and effectiveness of internal control these representations may be made in a single document.

Specific Considerations for Public Sector Auditors with a Judicial Role

- P9. In some public sector audit environments, such as in a Court of Accounts environment, the auditors' report is often used to determine personal legal implications of those responsible for financial acts, including significant matters, instances of non-compliance with authorities, and control deficiencies. Therefore, public sector auditors in such environments, when evaluating the misstatements, instances of non-compliance with authorities and control deficiencies identified during the audit, also identify those responsible for the financial acts and for compliance with legal requirements.
- P10. Paragraph 8 of the ISA requires the auditor to communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management. Where public sector auditors have mandates which include the legal authority to order the entity to correct any misstatements as well as instances of non-compliance with authorities, they consider whether exercising this authority may impair their independence and, if so, take appropriate action to avoid such impairment.