CANADIAN AUDITING STANDARDS
CAS 450
evaluation of misstatements identified during the audit

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

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, including inadequate or incomplete disclosures, and those disclosures required to meet disclosure objectives of certain financial reporting frameworks as applicable; 6

(c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts;

(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;

(e) An inappropriate classification, aggregation or disaggregation, of information; and

(f) For financial statements prepared in accordance with a fair presentation framework, the omission of a disclosure necessary for the financial statements to achieve fair presentation beyond disclosures specifically required by the framework. 7

Examples of misstatements arising from fraud are provided in CAS 240. 8

A22. CAS 240 16 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 statements. Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

- Misleading disclosures that have resulted from bias in management's judgments; or
- Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial statements.

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional skepticism in accordance with CAS 200. 17

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 570, *Going Concern*.

A17. In addition, each individual misstatement of a qualitative disclosure is considered to evaluate its effect on the relevant disclosure(s), as well as its overall effect on the financial statements as a whole. The determination of whether a misstatement(s) in a qualitative disclosure is material, in the context of the applicable financial reporting framework and the specific circumstances of the entity, is a matter that involves the exercise of professional judgment. Examples where such misstatements may be material include:

- Inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.
- The omission of information about the events or circumstances that have led to an impairment loss (e.g., a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations.
- The incorrect description of an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.
- The inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities.

Footnotes

6. 6 For example, International Financial Reporting Standard 7, Financial Instruments: Disclosures, paragraph 42H, states that "an entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph ..."

7. 7 For example, IFRS requires an entity to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (International Accounting Standard 1, *Presentation of Financial Statements*, paragraph 17(c)).

8. 8 CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A1-A6

16 CAS 240, paragraph 36

17 CAS 200, *Overall Objectives of the Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, paragraph 15
