

Issue of “Clearly Trivial”

I. Objective of Agenda Item

To consider whether additional guidance is needed when an accountant performing a review engagement considers uncorrected misstatements that are *clearly trivial* and, if such guidance is necessary, what form that guidance should take.

II. Background

The concept of *immaterial* items is included in AR-C section 90, *Review of Financial Statements*, specifically paragraph .60:

.60 For all financial statements presented and all periods covered by the review, the accountant should request management to provide written representations that are dated as of the date of the accountant’s review report and that indicate that it has fulfilled its responsibilities, as set out in the terms of the engagement, including the following:

...

l. Management has disclosed to the accountant whether it believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation.

While misstatements may be considered immaterial, there is a subset of such immaterial misstatements that are considered to be *clearly trivial*.

The concept of *clearly trivial* is included in paragraphs .05, .12a, .A2-.A4, and .A13 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit* (**emphasis added**):

.05 The auditor should accumulate misstatements identified during the audit, other than those that are **clearly trivial**. (Ref: par. .A2–.A3)

.12 The auditor should include in the audit documentation ^{fn 4} (Ref: par. .A33)

- a. the amount below which misstatements would be regarded as **clearly trivial**; (See paragraph .05)

“Clearly Trivial”

.A2 Paragraph .05 requires the auditor to accumulate misstatements identified during the audit other than those that are clearly trivial. “Clearly trivial” is not another expression for “not material.” Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature, than those that would be determined to be material and will be misstatements that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature, or circumstances. When there is any uncertainty

^{fn 4} Paragraphs .08–.12 and .A8 of section 230, *Audit Documentation*.

about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

Misstatements in Individual Statements

.A3 The auditor may designate an amount below which misstatements of amounts in the individual statements 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. However, misstatements of amounts that are above the designated amount would be accumulated as required by paragraph .05. In addition, misstatements relating to amounts may not be clearly trivial based on their nature or circumstances and, if not clearly trivial, would be accumulated as required by paragraph .05 of this section.

Misstatements in Disclosures

.A4 Misstatements in disclosures may also be clearly trivial whether taken individually or in the aggregate and whether judged based on size, nature, or circumstances. Misstatements in disclosures that are not clearly trivial are also accumulated to assist the auditor in evaluating the effect of such misstatements on the relevant disclosures and the financial statements as a whole. Paragraph .A23 provides examples of when misstatements in qualitative disclosures may be material.

Communication and Correction of Misstatements (Ref: par. .07–.09)

.A13 The auditor may request management to record an adjustment needed to correct all factual misstatements, including the effect of prior period misstatements (see paragraph .08), other than those that the auditor believes are clearly trivial.

III. Issues for ARSC Consideration

The ARSC is asked to consider the following:

- 1) Is the concept of *clearly trivial* misstatements equally relevant in a review as it is in an audit?
- 2) If the concept is necessary for inclusion in AR-C section 90 would it hang off:
 - a. the summary of uncorrected immaterial misstatements required to be included with the representation letter,
 - b. on a requirement for the accountant to consider misstatements in forming the conclusion on the financial statements, or
 - c. documentation requirements.
- 3) If additional guidance is necessary, in what format should that guidance be issued?
 - a. Authoritative interpretation to AR-C section 90 (can be issued relatively quickly after ARSC approval)?
 - b. Non-authoritative TQA document (can be issued relatively quickly and does not require ARSC approval)?
 - c. Inclusion in 2022 edition of the Guide, *Preparation, Compilation, and Review Engagements* (scheduled to be issued in the third quarter of 2022)?

- d. As application guidance (would require a standard with public exposure and appropriate due process)?

IV. No additional agenda items presented