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Materiality Decisions in Planning and Performing an Audit

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Abstract

There has been considerable difficulty in determining materiality threshold that assist in decision making when planning and performing an audit. Investors need reliable data that may enhance investors' confidence and reduce auditor's risk. This paper is aimed at revealing whether actually materiality threshold reduces auditor's risk and increases investors' confidence. The study revealed that materiality threshold reduce, auditors risk and increases investors' confidence. In carrying out this study, a sample population of four hundred audit practitioners and university lecturers in accounting department were used to collate data, through questionnaire. Chi square analyses were used. In conclusion, the study recommended that materiality decision enhances investors' confidence and reduces auditor's risk and that standard setters and audit committee should be involved in the discussion of materiality. More so, carried over mistatements should

be considered in audit report to avoid fraud. This is because the cumulative figure from the carried over misstatements could be heavily material.

The audited financial statement by auditors is a major medium of decision making by users of the statement. Every investor would need a reliable and unambiguous financial statement to drive high their confidence. While the auditors work fervently towards ensuring this confidence by embarking on placing materiality threshold on financial statement assertions, they (auditors) also work to see how their efforts could reduce the associated risks and liabilities. The main aim of this paper is to examine the effect of materiality in building confidence of financial statement users as well as seeing how materiality can minimize audit risk.

Literature Review

Materiality is the magnitude of an omission or misstatement of accounting information that in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement (Statement of Accounting Standard (SAS) 47).

Woolf, (1997:42) stated that “materiality is defined from the point of view of the address of the auditor’s report, in the context of whether an omission or misstatement would reasonably influence his decision”.

Materiality is fundamental because it cuts across all facet of audit activities. Auditor have to make materiality judgement on every audit (McKee and Eilifsen, 2000).

Materiality concept must be conceived in mind by auditors during audit planning, audit testing, analytical period (analysis of accounts) and reporting.

Materiality is a matter of professional judgement and is predicated on what the auditor perceived as the view of a reasonable person who is relying on the financial statement. Note that there are no guidelines or standards for making this judgement as McKee and Eilifsen, (2000:2) stated that “the auditing standards do not explicitly require the auditor to quantify materiality” and the focus of the definition made in the Statement of Accounting Standard (SAS) 47 is on the users of the financial statements. However, a new auditing standard Statement of Accounting Standard (SAS) 107 of 2006 on users perspective, stated that “an auditor’s judgement as to matters that are material to users of financial statements is based on consideration of the needs of users as a group; the auditor does not consider the possible effect of misstatements on specific individual users whose needs may be widely”. (Statement of Accounting Standard (SAS) No 107 of 2006) goes on to states that “the evaluation of whether a misstatement could influence economic decisions of users and therefore be material, involves consideration of the characteristics of those users"

Materiality may be Accounting Materiality or Auditing Materiality, as Hadidi, (1973) stated that:

> Materiality uses may be classified as accounting uses and auditing uses. In accounting, materiality is applied at three stages: the recording, classification of items on financial statements, and reporting on the financial position and the results of operations including disclosure. Auditors use materiality at both the planning and the execution phases of the audit program. Any departure from the pronouncements and requirements of the professional bodies or the Security and Exchange Commission (SEC) concerning these accounting or auditing aspects should be corrected and disclosed. The use of the concept of materiality is to determine whether such a departure is material enough that it should be corrected or disclosed. The above discussion illustrates the importance of the concept of materiality and the need for criteria that will help the accountant in making his accounting or auditing materiality decision.

Accounting Materiality (accounting uses) is the magnitude of a misstatement that may affects the users decision as assessed by the auditor while Auditing materiality **(**auditing uses) is when the auditor uses accounting materiality as starting point for determining an amount that will be used for establishing the preliminary judgement about materiality (Messier, 1999).

For instance, if an inventory balance is, say, N2,600,000 and supposing the auditor assesses that the inventory component of the financial statement can be misstated by N60,000 before users decision will be affected. The N60,000 is the accounting materiality. The auditor may set auditing materiality at N50,000. This is at a lower amount to provide for any uncertainty that may be present in his or her assessment of accounting materiality. Thus N50,000 will now be used by the auditor to design his planned audit work and also be used to evaluate the auditor's findings. By establishing an auditing materiality level such as N50,000, the auditor is focusing on material misstatement where a misstatement is the difference between what management assert as the balance and the balance based on the auditor's findings.
The auditors communicate the notion of materiality to the users of financial statement by including in their standard audit report, the phrase "the financial statement present fairly in all material respect". In addition, there is no full proof or guarantee that the auditor will uncover all material misstatements. The auditor can only provide reasonable assurance that all material misstatements are detected as Raman and VanDanker, (1994:2) stated that "the phrase 'present fairly' in the auditors opinion incorporate the concept of materiality by suggesting the financial statements are accurate only within reasonable and practicable limit". It is this notion of reasonable assurance that leads to the concept of audit risk.

As a matter of simplicity, materiality could be defined as any misstated or omitted amount or fact in a financial statement transaction that could affect the decision made by a user of the financial statement by relying on that financial statement.

Professional auditing standard provides an insignificant guidance on how to assess materiality. It is in this light, that auditing firms and professional bodies like American of Instituted of Certified Public Accountants (AICPA) have developed polices and procedures to assist auditors in assessing materiality, though based on general approach provided by auditing standard. The individual firm's procedure may differ but the approach will always present, to a reader, with a basic framework for understanding materiality consideration in an audit.

Application of Materiality

Materiality can be applied in two major areas in accounting. One is concerned with the audit work of determining or estimating the rate of arithmetic or mechanical error in accounting data. The other is regarding the accounting and auditing work related to the technical aspects of recording, classifying and disclosing financial facts, (Hadidi, 1973). The auditor is guided by the pronouncement of ICAN, ANAN AICPA, SEC NASB SAS with respect to the planning and execution of the audit program. The regulating pronouncements are applicable only when the item, transaction, account or departure from standard practice is material.

In order for the financial statements of an entity to be comparable and more useful to its users, the accountant must be consistent in applying a particular accounting principle from period to period. The depreciation method used by the business, straight-line for example, should be consistently followed from period to period. A change to any other acceptable method should be disclosed. Lack of disclosure or reference to this change will be a departure from standard accounting practice unless the effect of the change is immaterial in the current period and is also expected to be immaterial in its effect in future periods.

Materiality decisions are important to the auditor in determining the need for, and the extent of, the audit procedures to be used with respect to a particular item or event. At the planning stage, the auditor uses materiality as a criterion in determining the items that will receive limited attention with regards to the exclusiveness of evidence gathered or the extent of item examined.

The auditor uses materiality in executing the audit plan or program when he evaluates departures from standard accounting practice. The departure that the auditor may discover here is of the nature given above at the recording, classification, or disclosure phases. Any departure the auditor discoverers should be corrected or disclosed in notes to financial statements or in the auditor's report. But only material departure will require correction or disclosure. Additionally, there are other uses of the materiality concept, such as those concerning disclosures required by Security and Exchange Commission (SEC).

In establishing materiality for an audit, the auditor must consider quantitative and qualitative factors as McKee and Eilifsen, (2000:2) stated that "the auditors materiality decision is both quantitative and qualitative. The qualitative aspect of materiality may affect financial statement materially. For instance, where an illegal payment to secure a contract may be so small and immaterial but may affect users of financial statement through the resultant consequence of its disclosure, such as loss of the contract and heavy penalties which may be material.

Factors Which Determine the Materiality of an Item: In making an assessment as to whether or not an item is material, the auditor will be guided by the following criteria, which are qualitative and quantitative:

Qualitative Approach to Materiality

1. The proportion which the item bears to the class of transaction or account balance to which it belongs or to the financial statement as a whole
2. **The impact of statutory provisions on the item**: Normally, if a law requires an item to be disclosed, the item will be considered material and, the accounts should include this item, unless it is very insignificant in value.
3. **The impact of the omission or inclusion of the item on profit and loss account and balance sheet trend**: An error, which would otherwise be judged immaterial could have the effect of reversing a trend. When an item affects such a critical point in the profit and loss account or balance sheet, it is usually regarded as material.
4. **The impact of accounting standards on the item**: Financial statements should comply with the requirements of accounting standards, and the auditor should report if there is noncompliance. Sometimes, it can be difficult for auditors to decide whether to qualify their audit report for non compliance with accounting standard.
5. **Whether or not the item will result in the overstatement of profit or net assets**: It appears that auditors are more concerned that net profit or net asset is not overstated in error, which understates net assets or net profit than one, which overstates net assets or net profits before qualifying his audit report. Two reasons can be adduced to this approach. Firstly, it is argued that it is prudent. Secondly, auditors are more likely to be sued for negligence if profits or net assets are overstated than if they are understated.
6. **The "exactness" or accuracy with which an item can be stated**. Where an item can be accurately stated, the margin of error that will be regarded as material will be smaller than if the item cannot be stated accurately. For example, the margin or error that will be regarded as material for bank overdraft will be lower than that of debtors. Also, debtors value is expected to be more accurate than stock value. Consequently, the margin of error that will be regarded as for debtors will be lower

than that of stocks. The value of share capital, bank balances dividends and loan stock issued by the company should be acceptable.

7. **The marginal effect of the inclusion or otherwise of the item on the result of operation or financial position of the entity**: An item, irrespective of its magnitude will be regarded as material where it could cause marginal loss to result in a marginal profit and vice versa, or where the item could cause a marginally solvent financial position to result in a marginally insolvent financial position and vice versa from the above.

Other factors include: the state of internal control, expected users of financial reports, management accounting policies, fraud or illegal acts, and small amount that might violate covenant in a contract.

It can be seem that materiality is influenced by several qualitative considerations. This will result in different materiality criteria being applied depending on the aspect of the financial statement being considered.

Quantitative Approaches to Materiality

There is no clear statement within the auditing standard that auditors should quantify materiality, but they the auditor prefer to quantify the preliminary materiality judgement in addition to consideration of qualitative factors McKee and Eilifsen, (2000). The quantitative approaches as stated by McKee and Eilifsen, (2000) are as follows

1. Single rule or rule of thumb
2. Variable or size rules
3. Average or blend methods
4. Formular method

The auditing standards do not explicitly require the auditor to quantify materiality. However, although auditors may consider non-quantitative factors in making the materiality judgment, they typically prefer to quantify the preliminary materiality judgment.

Quantitative approaches by auditors to making the preliminary materiality judgment can be classified into the following categories: single rules, variable or size rules, average or blending method and formula method. Single Rules are rules of thumb that use a single financial variable for computing materiality. As a matter of policy, an audit firm typically provides three or four such rules and allows the individual auditor to choose the most appropriate rule based on an assessment of qualitative factors. Examples of common single rules include the following: 0.5% of total assets, 1 % of equity and 0.5% of total revenues

Variable or size rules are similar to single rules but differ in that they provide a range of possible different materiality levels for companies of different sizes. An auditor uses an assessment of qualitative factors to help decide what materiality level to select within the appropriate range. Examples of variable rules include the following:

i. 2 to 5% of gross profit, if less than $20,000
ii. 1 to 2% of gross profit, if between $20,000 and $1 million
iii. 0.5 to 1 % of gross profit, if between $1 and $100 million
iv. 0.5% of gross profit, if more than $100 million.

Average or blending methods typically average four or five individual rules of thumb or weighs each according to a particular formula. Presumably, the blending or averaging process provides an indirect way of considering qualitative factors. A simple example would be to average the previously listed four single rules, giving each a 25% weight.

Formula methods are often estimated by a statistical analysis of a sample of companies. The most widely known formula is used by Klynveld Peat Marwick Goedeler (KPMG- Accounting Firm, founded in 1917 in Amsterdam with Current Headquarter in Netherlands) although there are many others in the audit literature. The 1998 version of KPMG's materiality formula is as follows:

Materiality = 1.84 (greater of Assets or revenues)

Also Messier, (1999:96) citing Zuber, (1983) that one method of allocating preliminary judgement about materiality using formular method is referred to as the **"relative magnitude method"** the relative magnitude judgement about materiality using the following formular".

$$\text{Tm} = \text{PJM} \times \sqrt{\frac{\text{Book value of account}}{\text{Total amount of all components to which materiality is being allocated.}}}$$

Where

TM	=	Tolerable Misstatement for a balance sheet account
PJM	=	Preliminary Judgement about Materiality.

Note that tolerable misstatement is the amount of PJM that is allocated to an account.

The auditor goes further to reallocate tolerable misstatement among accounts after considering surrounding qualitative factors. However it is interesting to note that Messier, (1999:97) stated that "tolerable misstatements are generally non-additive, to the extent that each of the audit tests is independent of the other. This formular will prevent the auditor's risk of rejecting the client's financial statement as not being fairly presented from becoming too great for practical application".

Imperative of Materiality Concept

The imperative here means the auditor or the accountant looks at the importance, to him or herself of materiality. Certain decisions need to be made in conducting an audit assignment and this will be centred on whether an item is material or not. The auditor considers the following in making the following decisions.

a. whether an item requires disclosure in the financial statement.
b. whether correction should be effected or not.
c. whether or not a matter should be disclosed separately or should be taken together with other items.
d. To know the level of work to be carried out in an audit, that is, whether to increase the scope of work in order to reduce risk or not.
e. To determine whether an auditor should issue a qualified or unqualified opinion.
f. The perfection in records may be assured so that a small error is allowed to occur; otherwise, detail checking of all records by auditor must be made, even then it is very unlikely that perfect accuracy could be guaranteed.

Statement of Problems

Over the years, coupled with the recent fraud cases recorded in error, worldcom, African Petroleum Nigeria Plc & Cardbury Nigeria, to mention a few, the confidence of investors on financial statement reported by auditors are eroding and auditors are equally scared of pending liabilities that await their negligence. It is been thought that the concept of materiality will assist in reducing these problems. Considering the problem statements, one is poised to ask these questions:

1. can materiality threshold assist in increasing investors' confidence?
2. can materiality threshold assist in reducing auditors risk?

Objective of the Study

This study was intended to achieve the following objectives:

- To find out whether materiality decision in planning and performing an audit will assist in increasing investors' confidence and
- To find out whether materiality decision in planning and performing an audit will assist in reducing auditor's risk.

Hypothesis

Ho_1 Materiality determination and threshold does not significantly help in increasing investors' confidence

Ho_2 Materiality determination and threshold does not significantly help in reducing auditor's risk

H_1 Materiality determination and threshold do significantly help in increasing investors' confidence

H_2 Materiality determination and threshold do significantly help in reducing auditor's risk

Methodology

The use of primary source of data was used through the instrumentality of questionnaire. Chi-square were used to test the result arrived at.

Population for the Study

The total populations of 520 were estimated for the study out of which 480 were discovered through questionnaire served to be in practice as auditors and lecturing because some of the licenced practitioner were not actually practicing. Therefore, our concentration was on 400 practitioners/lecturers.

Sample

The target population of 400, comprising lecturers in accounting department in the universities and individual professional accountants who are in practice in Jos and Lokoja metropolis. In Taro Yamani, cited in Guilford and Frucher, (1973), sample size determinant is expressed in the formular.

$$n = \left(\frac{N}{1 + N(e)^2} \right)$$

Where n = desired sample size

n = total population

e = accepted error limit on the basis 95% significance level

N = 400

e = 0.05

$$n = \left(\frac{400}{1 + 400(0.05)^2} \right)$$

$$1 + (400 \times 0.0025)$$

$$\left(= 1 + 1 = 2 \right)$$

$$= \frac{400}{2} = 200$$

because it gives room for adequate representation of the population under study. The total 250 expert were drawn from both the university account lecturers and professional accountant in practice.

Research Instrument

The research instrument for the study was questionnaire, designed in line with the hypothesis. The items in the questionnaire were structured with the aim of ascertaining the degree of acceptance and to capture the opinion of the respondents who are lecturers and practitioners.

Method of Data Collection

Four hundred and eighty copies of the questionnaire were administered personally to various university lectures and practitioners in accounting firms on the subject matter by the researcher.

200 questionnaire presenting 80% were properly completed and returned; hence the analysis was based on the number.

The analyses was carried out with the use of simple percentage and chi-square test at 5% significant level. The decision rule was to reject Ho if chi-square calculated is greater than the chi-square tabulated (critical value).

Table 1: Materiality Threshold increase Investor's Confidence and Reduces Auditors Risk Either Caused by Error or Fraud

Lecturers in Accounting Dept in universities	Yes	Partially	No	Total
ATBU Bauchi	11(91.67%)	1(8.33%)	-	12
University of Maiduguri	10(83.33%)	2(16.67%)	-	12
ABU Zaria	12(92.31%)	1(7.69%)	-	13
Uni Jos	11(91.67%)	1(8.33%)	-	12
Fed. Uni. Technology, Yola	10(90.91%)	1(9.09%)	-	11

Table 1 above shows the responses of University lecturers in Accounting department.

In Abubakar Tafawa Belewa University (ATBU, Bauchi, for instance, out 12 lecturers of the accounting department of the university interviewed, 11 representing 91.67% agreed that materiality threshold increases investors confidence and reduces auditors risk either caused by error or frauds representing 8.33% while one partially agreed and this might be due to the fact that the one lecturers has not had grasp of the topic under research or understood the topic properly.

In university of Maiduguri, 10 out of 12 accounting department's lecturers reached, 10 of them representing 83.33% agreed to the fact that materiality threshold increases investors confidence and reduces auditors risk while two lecturer partially agreed to this fact. This might probably be due to the fact that the two lecturers have not had the grasp of the topic under discussion.

In ABU, Zaria 12 out of 13 lecturers interview representing 92.31% agreed totally to that fact while one lecturers partially agreed representing 7.69%.
In University of Jos, the same view is expressed as that in ATBU Bauchi.
In Federal University Technology, Yola, 10 lectures out of total of 11 lecturers reached, representing 90.91% agreed to the fact that materiality threshold increase investor's confidence and reduces auditors' risk either caused by error or frauds.

Table 2: Materiality Threshold Increase, Investors Confidence and Reduces Auditors Risk Either Caused by Error or Fraud

Practitioners	Yes	Partially	No	Total
Sam Anko & Co CAN Jos	10(90.91%)	1(9.09%)	-	11
KL & Co Chartered Accountants	12(92.31%)	1(7.69%)	-	13
Taiwo & Co Chartered Accountants	11(84.62%)	2(15.38%)	-	13
Jenfa & Co CAN	12(92.31%)	1(7.69%)	-	13
JAFemi Co CNA, Lokoja	10(90.91)	1(9.09%)	-	11

Table 2 above shows the responses to know whether materiality threshold increase investors confidence and decreases auditors risk or not. In Sam Anko & Co Certified National Accountants has 10 experienced and technical qualified staff, and the 10 of them agreed that materiality threshold increases investors confidence and reduces auditors risk, representing a success rate 90.91% while one staff partially agreed to that. This might be that the one person has not had enough experience to conclude.

In KL & Co chartered accountants in Jos has 12 out of 13 staff agreeing positively that materiality threshold increases investor confidence and reduces auditors risk either caused by fraud or error. In Taiwo & Co chartered accountant in Jos has the same deduction as in KL & CO chartered accountants. In Jenfa & Co Certified National Accountants, Jos also has the same deduction as KL & Co chartered accountants. However, JF Adebisi & Co Certified National Accountants, Lokoja has the same opinion as Sam Anko & Co Certified National Accountants in Jos.

Table 3: Ho_1 Materiality Determination and Threshold Does not Help in Increasing Investors' Confidence

	YES	NO	TOTAL
University lecturers	27	70	97
Practitioners	15	88	103
TOTAL	42	158	200

Table 3a: Chi-Square Distribution of the Respondents

Observed frequency (O)	Expected frequency E	O – E	$\frac{(O-E)^2}{E}$
27	20.37	6.37	1.10
70	76.63	-6.63	0.57
15	21.63	-6.63	2.03
88	81.37	6.63	0.54
			4.24

$$E = \frac{\text{Row total X column total}}{\text{Grand total}}$$

Calculated $X^2 = 4.24$

$(C – 1) (R – 1) = (2- 1) (2 – 1) = 1$

Since calculated $X^2 = 4.20$ is > tabular
$X^2 = 3.84$ we reject the Ho1 and conclude that materiality determination and threshold helps in increasing investors' confidence.

Table 4: Ho_2 Materiality Determination and Threshold Does not Significantly Help In Reducing Auditors' Risks

	YES	**NO**	**TOTAL**
University lecturers	20	74	94
Practitioners	10	96	106
TOTAL	30	170	200

Observed frequency (O)	**Expected frequency E**	**O – E**	$\frac{(O-E)^2}{E}$
20	14.1	5.9	0.60
74	15.9	58.10	212.30
10	79.9	-69.9	61.15
96	90.10	5.9	0.39
			274.44

$X^2 = 274.44$
$(C – 1) (R – 1) = (2- 1) (2 – 1) = 1$ at 0.05 error of estimate, that is 95% confidence level

Since calculated $X^2 = 274.44$ > tabulated

$X^2 = 3.84$, we reject the Ho_2 and accept H_2 to conclude that materiality determination and threshold helps in reducing auditors' risk.

Data Analysis

The data in table 1 above represent data collected from university lecturers in accounting department in an effort to determine whether materiality actually reduces auditors' risk either caused by error or fraud in failing to report all misstatements. The data revealed that:

In university of Maiduguri, out of total of 12 lecturers in the accounting department served with questionnaire, 11 representing 83.33%, agreed that materiality reduces auditors risk either caused by error or frauds, while 2 representing 16.67% partially agreed and this might probably be due to inability to critically understand the concept under discussion. In ABU Zaria, out of 13 representing 92.31% questionnaire served, 12 responses shows that materiality reduces auditors risk either caused by error or fraud following inability of the auditor to report all misstatements, while 1 representing 8.33% partially agree in the affirmative that materiality reduces auditors risks while in University of Jos, 11 out of 12 totally agreed in the affirmative, while 1 representing 8.33% partially agreed. In Nasarawa State University, Keffi 10 out of 11 lecturers representing 90.91% agreed that materiality reduces auditors risk while 1 representing 9.09% partially agreed. In the final analysis no university lecturers in accounting department disagreed totally.

Data in table 2 above shows the responses of those practitioner in audit firms in respect of the subject matter, J. A. Adebisi & Co Certified National Accountants has out of 6 practitioners, 5 representing 83.33% agreeing totally to the fact that materiality reduces auditors risk resulting from inability to report all misstatement caused by error or frauds, while 1 practitioner partially agrees to this fact representing 16.67%. B/Jenfa 7 Co Certified National Accountants and a Rabo & Co Chartered Accountants have the same positioned as JF Adebisi & Co Certified National Accountants. The one percent partially agreeing might be due to their criticality. However, Taiwo & Co Chartered Accountant has 4 practitioners agreeing totally to the fact under discussion. Sam Anko & Co Certified National Accountants has 7 practitioners with 6 agreeing to this fact, representing 85.71% while 1 representing 14.29% partially agreed, due to its critically.

Discussion / Results

The findings of this study revealed that materiality determination and threshold assist significantly in ensuring investors confidence on financial statement reporting. It was further shown that materiality determination and threshold significantly assist in reducing auditors risk such as risk of non-reporting of all misstatement either caused by error frauds or irregularities.

Conclusion

The writer has come up with the following conclusion, in an effort to arrive at agreed estimate in materiality justification and precise decision so that the effect of misstatement is minimized, auditors risk reduced, investors' and other users' confidence increased that:

1. Audit committee should be made by regulations to be involved in the discussion of qualitative aspects of materiality, as it is required that surrounding circumstances should be considered in the determination of materiality beside quantitative aspects, as two-man decision is better than one-man decision.
2. The standard setters and regulators should look towards the enhancement of auditors testing of accounting estimate by requiring greater disclosure of estimate ranges.
3. The standard setters and regulators should consider regulations that should require auditors to receive approval of the materiality threshold established by the auditors in the course of discussion with the management and audit committee, before waiving adjustment. This is because, the aggregate of immaterial value on individual transaction could be material on financial statement taken as a whole.
4. Assessment of what is material is a matter of professional judgement. However (Hans, 2003:2) cited in Messier and Holtru, (1982) stated that "a commonly used rule of thumb is that misstatements less than 5% of normalized operating income before taxes are likely immaterial, misstatement greater than 10% of normalized

operating income before taxes are likely material, while the materiality of amount in the intermediate range depends on the specific circumstance"

5. The determination of materiality though relative, in financial statement should be made compulsory as most audit firms hardly do that, particularly in Nigeria. This will help the management in limiting negative audit reporting, increase investors' confidence and reduce, greatly, auditor's risk.
6. It should be noted that pending litigations await auditors who perform audit assignment without due consideration of materiality determination in planning and performing the audit as well as reporting.
7. In considering transaction misstatements, the auditor should look out for those transactions that have carried over misstatement from previous period. If the aggregate of carried over misstatement with current year misstatement is more than tolerable misstatement, the auditor qualifies his report to avoid continuous fraudulent misstatements.

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