

**IAASB Response Letter to US ED**

June 12, 2002

Ms Sherry Boothe  
Audit and Attest Standards  
AICPA  
File 2691  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms Boothe:

**Exposure Draft – Consideration of Fraud in a Financial Statement Audit**

The International Auditing and Assurance Standards Board (IAASB) is pleased to comment on the exposure draft (ED) *Consideration of Fraud in a Financial Statement Audit*.

In March 2001, the IAASB revised its guidance in this area and issued ISA 240 *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*. The IAASB is pleased to see that some of the thoughts in ISA 240 have been incorporated into the ED. The IAASB plans to revise ISA 240, and possibly issue an International Auditing Practices Statement, to reflect the final position, modified as appropriate for an international environment, in the final statement on auditing standards *Consideration of Fraud in a Financial Statement Audit*. In this regard, the IAASB has found it particularly useful to have observer status on the Fraud Task Force and wishes to thank the AICPA for this opportunity.

We provide overall comments below, followed by some more specific comments. The Appendix contains detailed comments on specific individual paragraphs in the ED.

**Overall Comments**

The IAASB welcomes the actions of the AICPA in this important area to address the concerns regarding fraudulent financial reporting. The IAASB does however have strong reservations whether the ED will achieve the objective of effecting a substantial change in auditor's performance, thereby improving the likelihood that auditors will detect material misstatements due to fraud. In particular, we question whether the ED will improve the likelihood that the auditor will detect those misstatements that are the result of sophisticated fraud involving senior management.

The primary responsibility for the prevention and detection of fraud rests with those charged with governance of an entity and with management. Consequently it is essential that strong corporate governance structures be in place. Therefore, we believe that the final standard should include a more detailed discussion of the respective responsibilities of those charged with governance, and of management (see our specific comments below). It would also be useful to work jointly with

organizations charged with corporate governance practices, such as institutes of directors in order to develop best practices in this area and to promote the cause of good governance.

As a further step to narrow the expectation gap we would support undertaking an additional project to consider how the concept of reasonable assurance applies to fraud and error. One of the outputs of this project might be proposed revisions to the wording of the standard audit report to clarify the auditor's responsibility with respect to the detection of fraud.

Notwithstanding our strong reservations as to the impact of the final standard we believe it is an improvement over the existing fraud standard and consequently we encourage the AICPA to complete and issue the final standard, after taking into account the comments received on exposure.

## Specific Comments

### STRUCTURE OF THE ED

The final standard would be improved with the addition of a section that emphasizes the key elements contained in the ED and a restructuring of some of the sections.

The ED is long and contains a lot detailed guidance. While paragraph 2 does contain a good overview of the organization and content of the ED, it would be useful to have an introductory few paragraphs that outline the key elements of the ED. Matters that could be articulated include:

- When the auditor discovers new information that contradicts other evidence or is contrary to expectations the auditor should not start to seek to rationalize the new information rather the auditor should:
  - - Ask more questions of management, including non-financial management, but be alert to the possibility that they are acting without honesty and integrity;
    - Probe issues thoroughly and seek additional evidence as necessary;
    - Exercise heightened professional skepticism;
    - Critically assess the information and explanations obtained; and
    - Consult with other audit team members and, if appropriate, experts in the firm;
- Cost restraints should not restrict auditing procedures once doubts have been raised; and
- If material doubts cannot be satisfactorily resolved the auditor should qualify the audit report and/or consider whether resignation is appropriate.

While these thoughts are already included in the ED, they are not clearly highlighted; consequently they are somewhat lost amongst the detailed guidance provided. Without such an overall articulation of the key elements we are concerned that there will be a risk that auditors may adopt a checklist mentality to compliance with a belief that "providing all the boxes have been ticked" a satisfactory audit has been completed. The articulation of key elements will encourage the application of professional skepticism and judgment.

The structure of the ED is somewhat confusing. The ED contains separate sections on:

- obtaining information to identify the risks of material misstatement due to fraud;

- identifying risks that may result in a material misstatement due to fraud; and
- assessing the identified risks after taking into account an evaluation of the entity's programs and controls that address the risks.

In particular, the distinction between obtaining information and identifying risks is at times unclear. For example, when obtaining information the auditor considers whether one or more fraud risk factors exist. The ED needs to clearly distinguish between a fraud risk factor and a risk of material misstatement due to fraud. Therefore, the clarity of the ED would be improved if the sections on obtaining information and identifying risks were combined. We would suggest the following structure:

- making inquiries of management;
- identifying risks that may result in a material misstatement due to fraud (which would include material on the information the auditor gathers and considers);
- assessing the identified risks after taking into account an evaluation of the entity's programs and controls that address the risks.

We believe that making inquiries of management warrants a separate section because of the importance of this process.

#### EARNINGS MANAGEMENT

There is insufficient discussion in the ED on earnings management. It is referred to in the introductory text of the ED and again in paragraph 46 which states that when developing judgments about the quality of accounting principles the auditor should consider whether their collective application indicates a bias that may create a material misstatement in the financial statements.

The standard would be enhanced by the inclusion of more discussion of earnings management and how the incentives/pressures on management (the risk factors contained in the first part of Appendix A) may lead to fraudulent financial reporting. As discussed in the POB panel Report on Audit Effectiveness, fraudulent financial reporting often starts with earnings management. The final standard should alert auditors to the continuum of earnings management which covers a wide variety of actions ranging from legitimate managerial activities at one end of the spectrum to fraudulent financial reporting on the other and when the line of acceptability has been crossed by management. This is particularly relevant when considering management's selection and application of significant accounting principles.

#### RESPONSIBILITY OF THOSE CHARGED WITH GOVERNANCE AND OF MANAGEMENT

One of the challenges associated with a revised standard addressing the auditor's responsibility to detect fraud is to narrow the expectation gap. The ED states that management is responsible for establishing sound accounting policies and internal control, and management and those charged with governance are responsible for setting an appropriate tone. While we recognize that the responsibilities of management and audit committees cannot be established by auditing standards, we believe that there should be greater emphasis in the final standard on the role of management and the importance of good corporate governance. In this regard we believe there should be a

separate section in the standard that addresses the responsibility of those charged with governance and of management that includes the following:

- A clear statement that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management. The section would then discuss the respective responsibilities of each of these parties. Those charged with governance are responsible, through the oversight of management, for ensuring the integrity of the entity's accounting policies and internal control. Management is responsible for adopting sound accounting policies and establishing and maintaining internal control. Both parties are responsible for setting the appropriate "tone at the top". This discussion should be appropriately balanced by recognizing that even when an appropriate "tone" is set by management and those charged with governance, incentives and pressures may motivate inappropriate behaviors by management and others;
- Matters of governance that the auditor may discuss with those charged with governance such as a failure by management to address appropriately material weaknesses in internal control identified during the prior period's audit;
- The need for the auditor to adopt a strong line in informing management and those charged with governance when they believe that the corporate governance structure is weak and the effect of these matters on the general approach and overall scope of the audit, including additional procedures the auditor may need to perform; and
- Discussion and examples of the programs and controls that auditors might expect management and those charged with governance to have in place, which may indirectly help to ensure that such programs and controls are put in place where they do not already exist.

#### BELIEFS ABOUT MANAGEMENT'S INTEGRITY AND HONESTY

The paragraph states that the discussions among audit team members should take place setting aside any prior beliefs the members may have about management's honesty and integrity. We are concerned that this may be incorrectly interpreted as meaning there is a presumption that management is dishonest and does not have integrity and this appears to contradict the overall presumption in auditing standards that the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. Therefore, it would be clearer if this paragraph stated that the discussion amongst audit team members about the susceptibility of the entity's financial statements to material misstatement due to fraud takes place with a different mindset. The team considers internal or external factors and changes in circumstances that might create incentives and opportunities for fraud or may indicate a culture or environment that enables management to rationalize fraud. In light of these factors the team considers how fraud could be perpetrated and what procedures would be appropriate to address these risks. The team would also consider the corporate governance culture of the entity. As we have stated above a strong corporate governance culture is an essential component to achieve the objective of improving the detection and prevention of fraud – particularly in the case of sophisticated fraud involving senior management.

#### MANDATORY RESPONSES

The ED mandates the performance of certain procedures to address the risk of management override of controls. While it could be argued that it is difficult to reconcile a requirement for mandatory procedures to a risk model approach, the IAASB acknowledges that such a response

may be a necessary step to achieve the objective of changing auditor's performance thereby enhancing the prospects for detection of material misstatement due to fraud.

While the ED mandates the auditor to perform these procedures for public companies, the performance of such procedures is not mandatory for non-public companies. In the latter case, the auditor may conclude "based on an understanding of the entity and its environment and an assessment of the relevant facts and circumstances" that some or all of the procedures to address management override are not necessary. In our view, while the level of risk of management override will vary from organization to organization, the risk is nevertheless present in all organizations. Therefore, to the extent that there are mandatory procedures, they should be required on all audits. The extent of the procedures to be performed will vary depending on factors such as degree of incentive or pressure to achieve a given level of financial performance.

#### INQUIRIES OF MANAGEMENT AND OTHERS WITHIN THE ENTITY

The ED requires inquiries of management, the audit committee and internal personnel. In addition, it requires the auditor to make inquiries of others within the entity, and use professional judgment to select the individuals. Given the broad role of legal counsel within entities and their access to information, the auditor should also be required to make inquiries of in-house legal counsel.

The guidance on the ED is useful in terms of where to look, but not on how to make the judgment whether or not to make inquiries in any particular case. We are concerned that paragraphs 23 and 24 seem somewhat open-ended. For example, one might interpret paragraph 23 as a requirement (subject to judgment) that the auditor should ask everybody he or she talks to during the audit whether they have information that will be helpful to the auditor's assessment of fraud risk. More guidance in this area would be helpful.

Within paragraphs 23 to 25, or elsewhere, it might also be advantageous to remind auditors that responses to inquiries received from personnel with no direct interest in the outcome of the subject matter of the inquiry is, other things being equal, more reliable than responses from personnel who do have such interest.

#### EVALUATING THE BUSINESS RATIONALE FOR SIGNIFICANT UNUSUAL TRANSACTIONS

The ED contains one paragraph (paragraph 66) that discusses the need to evaluate the business rationale for significant unusual transactions. This paragraph is in the context of procedures to address the risk of management override of controls. This concept is very important in the context of detection of fraud and consequently should be given more prominence in the ED.

#### EVALUATION OF FINANCIAL STATEMENT DISCLOSURES

The ED should be expanded to recognize the potential for missing, inadequate or misleading disclosures in financial statements that may constitute material misstatements. While such disclosures are incorporated into the definition of misstatements arising from fraudulent financial reporting, there is insufficient emphasis in the ED on this matter.

#### MANDATORY RESPONSE – EXAMINING JOURNAL ENTRIES

We suggest a change in emphasis in this section. SAS 55 requires the auditor to obtain an understanding of the automated and manual procedures an entity uses to prepare financial statements and related disclosures and how misstatements occur. The ED requires the auditor to

“test the appropriateness and authorization of journal entries” (p56) and use professional judgment in “determining the nature, timing and extent of the testing to be performed of journal entries” (p61).

We believe it would be more useful if the auditor, when obtaining the understanding of the automated and manual procedures, were required to consider how fraudulent entries could be made including matters such as who could make such entries and the accounts that may be affected. The results of this consideration would influence the nature, timing and extent of testing of journal entries.

**Harmonization with the Audit Risk Model project**

It would be undesirable for auditing standards to require different processes for addressing audit risk and fraud. If the revised fraud standard is issued before the Audit Risk Model standard it would be useful to acknowledge that conforming changes may need to be made when the revised audit risk model is issued particularly with regard to the guidance on identifying, assessing and responding to risk.

If you have any questions on our comments, please contact the undersigned or Jan Munro at [janmunro@janmunro.ca](mailto:janmunro@janmunro.ca) or 416-512-0771.

Yours truly,

Dietz Mertin  
Chairman, IAASB

cc. IAASB members and technical advisors

## Appendix

Par No	Comment
Footnote 4	It would be helpful if this footnote were incorporated into paragraph 5.
02	As noted in the body of our letter, the final standard would be improved with the addition of a section that emphasizes the key elements of the ED.
04	As noted in the body of our letter, there should be greater emphasis in the final standard on the role of management and the importance of good corporate governance. Therefore the discussion in this paragraph should be expanded.
10	The last sentence should contain the phrase “create and maintain a culture of honesty and high ethical standards.” The sentence would then be consistent with paragraph 4.
11	This paragraph contains a general discussion of the presence of certain conditions that may suggest the possibility that fraud may exist. The examples given are: a missing contract; a ledger out of balance and the results of an analytical procedure being inconsistent with expectations. We believe that a more important and pervasive condition is the attitude of management as demonstrated through matters such as unrealistic time deadlines for completion of the audit, evasive, incomplete or vague responses to questions. We would recommend adding this thought to paragraph 11.
12	This paragraph states that “absolute assurance is not attainable and thus even a properly planned and performed audit may not detect a material misstatement due to fraud.” We believe the point is that an audit is not designed to obtain absolute assurance. Therefore, we would suggest that the paragraph be modified to state that an audit is designed to obtain reasonable assurance, not absolute assurance and therefore a properly planned and performed audit may not detect a material misstatement due to fraud.
13	It would be useful if there were an acknowledgement that the timing of the discussion among engagement personnel may vary depending upon the engagement.

Par No	Comment
13	This paragraph states that professional judgment should be used to determine which audit team members should be included in the discussion among engagement personnel regarding the risks of material misstatement due to fraud. It further states that the discussions “ordinarily should involve key members of the audit team from each significant location”. The standard should require team members with key supervisory, performance and review activities to be included in the discussions.
14	In the last bullet it would be helpful to refer to professional skepticism rather than a “proper state of mind”.
14	The paragraph should also include a discussion of audit procedures that will be performed to address the risk of material misstatement due to fraud, especially procedures in areas involving complex accounting issues, transactions for which it is difficult to understand the business rationale, and areas where management may have incentives or pressures to bias the financial statement amounts or disclosures. This also would include discussion of matters such as unpredictability of procedures and procedures to address the risk of management override of controls.
15	As noted in the body of our letter, we are concerned that this paragraph may be incorrectly interpreted as meaning there is a presumption that management is dishonest and does not have integrity. It would be clearer if this paragraph stated that the discussion amongst audit team members takes place with a different mindset. Furthermore, the team considers how fraud could be perpetrated and procedures that would be appropriate to address fraud risks.
15	The discussions among the audit team members with respect to the potential for material misstatement due to fraud should not be limited to planning. Paragraph 73 of the ED notes that at or near the completion of the audit “the auditor with final responsibility for the audit should ascertain that there has been appropriate communication to obtain information from other audit team members.” While it is important for this judgment to be made at the completion of the audit it is also important that the communication and sharing of information be ongoing throughout the audit.
18	<i>Third bullet</i> – it would strengthen the inquiry if the auditor obtained management’s <u>assessment</u> rather than <u>understanding</u> about the risks of fraud in the entity.



Par No	Comment
18	<p>It would be useful if the paragraphs on inquiries of management convey the thought that although such inquiries may provide useful information concerning the risk of material misstatement resulting from employee fraud, such inquiries are less likely to provide useful information regarding the risk of material misstatement resulting from management fraud.</p> <p>It may be useful to add "and reinforces and monitors such practices and behavior." at the end of the final bullet. Research has shown that statements by senior management on the importance of ethical behavior are ineffective unless reinforced in practice, and monitored. The concept of monitoring ethical behavior might also be added at the end of exposure draft paragraph 22.</p>
18 - 22	As noted in the body of our letter, given the broad role of legal counsel with entities and their access to information, the auditor should also be required to make inquiries of in-house legal counsel.
19	We believe ISA 240 paragraphs 24 and 25 are useful additional guidance to that contained in exposure draft paragraph 19, and should be considered for inclusion in the final standard.
20	<p>This paragraph requires the auditor to obtain the audit committee's views about the risks of fraud and whether the audit committee has knowledge of any fraud or suspected fraud. We believe it would be useful if the inquiries also included matters such as the audit committee's views on the adequacy of the controls in place to detect or prevent fraud and the audit committee's views on the competence and integrity of management.</p> <p>It would also be useful to indicate that these inquiries should be made sufficiently early in the audit process.</p>
23 - 24	As noted in the body of our letter, these paragraphs seem somewhat open-ended therefore additional guidance in this area would be helpful.
23 - 25	As noted in the body of our letter, it might be advantageous to remind auditors that responses to inquiries received from personnel with no direct interest in the subject matter of the inquiry is, other things being equal, more reliable than responses from personnel who do not have such interest.
25	It might be clearer to refer to "other evidential matter" as opposed to "other information".
30	ISA 240 contains cautionary language about identified risk factors (see paragraphs 34 to 36 in particular). Not only are these only examples, but many of the factors may exist in circumstances that they are not fraud indicators. We believe similar cautionary language could be added to exposure draft paragraph 30 and in the lead in to Appendix A.

Par No	Comment
30	To be consistent with paragraph 7, we suggest adding the word "generally", so that it reads "three conditions generally present".
31	It would be useful to state that information gained from other engagements performed for the entity might be helpful in identifying the risks of material misstatement due to fraud.
32	As noted in the body of our letter, the ED needs to clearly distinguish between a fraud risk factor and a risk of material misstatement due to fraud.
32 footnote 14	We wonder whether the word "discovery" should be substituted for the word "occurrence" since it is not possible to ascertain the occurrence other than when discovered.
34	ISA 240 paragraph 37 elaborates on exposure draft paragraph 34, including more commentary on the particular aspects of audits of smaller entities. We believe this is important. Controls, particularly over ethical conduct, may be effectively implemented very differently from the way they are implemented in large entities.
36	The example of a misapplication of cash receipts as a method of understating revenues is not clear.
37	It would be helpful to provide some examples to clarify the distinction between risks of material misstatement due to fraud that relate to specific financial statement account balances or classes of transactions and related assertions and risks of material misstatement due to fraud that relate more pervasively to the financial statements as a whole.
38	The paragraph should be clarified by the following wording change "Even if specific risks of material misstatement due to fraud are not identified by the auditor, there is a possibility that management override of controls could occur, and accordingly, the auditor should address that risk... <del>apart from</del> irrespective of any conclusions regarding the existence of more specifically identifiable risks."
Footnote 18	The footnote states that the assessment of identified risks of material misstatement due to fraud need not encompass an overall judgment about whether the risk for the entity is classified as high, medium, or low as such a judgment <u>is</u> too broad to be useful in developing the auditor's response as described in paragraphs 43 through 66. While such an overall judgment would not be sufficient to develop an appropriate response, it may be helpful in some areas. For example, an overall assessment of high, as opposed to low, may be useful in relation to the overall response referred to in paragraph 46. An overall assessment of high would have more significant overall effect on how the audit is conducted than would an overall assessment of low.

Par No	Comment
45	We note that paragraphs 45 and 77 deal with withdrawal from the engagement. In some jurisdictions such a withdrawal would be difficult to implement in practice even under the advice of legal counsel.
46	As noted in the body of our letter, the ED contains insufficient discussion on earnings management. The final standard should contain more guidance in this area.
46	The opening sentence states that judgments about the risks of material misstatement due to fraud <u>may</u> have an overall effect on how the audit is conducted. We believe the judgments <u>will</u> have an overall effect, the extent of the effect will depend upon the judgments made.
46	<i>Professional skepticism and audit evidence</i> – It would be useful to suggest that the use of a forensic audit specialist be considered.
46	<i>Assignment of personnel and supervision</i> - last sentence, we suggest the following addition:  “In addition, the extent of supervision <u>and review</u> should reflect the risks of material misstatement due to fraud.”
46	<i>Predictability of auditing procedures</i> . It would be useful to include a caution regarding the type of work that should be performed by internal auditors.
47	We suggest the following addition to the last sentence:  “However, because management may have the ability to override control that otherwise appear to be operating effectively...it is unlikely that audit risk can be reduced to an appropriately low level by performing only tests of controls <u>therefore the auditor would ordinarily also perform substantive procedures.</u> ”
48	<i>Nature</i> – It would be useful to have a strong suggestion, if not a requirement, to obtain written re corroboration confirmation of inquiries from management or others.
48	<i>Timing</i> – It would be useful to expand the guidance in these two paragraphs. As drafted the paragraphs indicate that the auditor might perform the substantive procedures closer to year-end or at the interim but they do not indicate the circumstances which would cause the auditor to change the timing. For example, the auditor might perform substantive procedures in interim periods when the entity reports on a quarterly basis.

Par No	Comment
49	The example of performing a procedure on a surprise basis refers to counting cash. Cash is usually an immaterial item; consequently a more effective example would be the counting of bearer securities. In addition, the reference to counts at period end also should recognize the possibility of recounts, and there also should be recognition of the possibility of inadequate controls or controls that are susceptible to override in the intervening period.
49	Fourth bullet – “Performing substantive analytical procedures using <u>appropriately</u> disaggregated data, for example, comparing gross profit or operating margins by location, line of business, or month to <u>month</u> auditor-developed expectations.”
49	Sixth bullet – we suggest including a reference to internal auditors.
50	<p>This paragraph contains useful guidance related to examples of responses to identified risks of material misstatements related to fraudulent financial reporting. Additional responses in the area of revenue recognition would be to consider realization of receivables. In a number of fraud cases, fraud has been perpetrated through the creation of fictitious receivables that remained uncollected at the completion of the audit. In the area of inventory, an appropriate response might relate to inventory valuation. A fraud can be perpetrated, or concealed, through deliberate mispricing of units or through biased obsolescence reserves.</p> <p><i>Inventory quantities</i> – first paragraph to be consistent with the previous sentence, "a review" should be replaced with "an examination" in the second sentence of the first paragraph.</p> <p>Second paragraph. It would be useful to refer to grades of lumber or valuable minerals.</p> <p>The guidance should contain some caution wording regarding the use of a specialist in this area. If the auditor is responding to an identified risk of material misstatement arising from fraudulent financial reporting the auditor may need to employ his or her own specialist to corroborate the findings of those within the entity.</p>
Footnote 20	It would be useful to include a reference to confirmations that are received by fax or Email.
51	Negotiable financial instruments are an additional example of assets subject to misappropriation.
52	It would be useful if this paragraph concluded with a clear example.

Par No	Comment
54	As noted in the body of our letter, while the risk of management override will vary from organization to organization, the risk is nevertheless present in all organizations. Therefore, to the extent that there are mandatory procedures, they should be required on all audits.
55	<p>This paragraph includes examples of situations where the auditor may conclude that some of all of the procedures that address the risk of management override are not necessary. One of the example provided is the audit of a subsidiary that is performed solely to satisfy statutory requirements that are unrelated to financial condition or performance. It would be useful to provide an illustration of such a circumstance.</p> <p>It would also be useful to note that if a subsidiary forms a significant component of the consolidated financial statements of a public entity, or if subsidiaries collectively form a significant component, the possibility of management override needs to be addressed.</p>
56	As noted in the body of our letter, we suggest a change in emphasis in this section. It would be more useful if the auditor, when obtaining the understanding of the automated and manual procedures, were required to consider how fraudulent entries could be made including matters such as who could make such entries and the accounts that may be affected.
61	<p>We suggest the following change to the last sentence of the third bullet:</p> <p>“When information technology (IT) is used in the financial reporting process, the auditor should be aware that journal entries and other adjustments might exist only in electronic form. In this environment, the auditor may <del>choose to</del> need to employ computer assisted audit techniques to identify the journal entries to be tested.”</p>
61	<i>Timing of testing</i> – We suggest that the auditor should also consider whether to test journal entries that are made at the end of an interim reporting period.
63	<p>This paragraph should note that “retrospective” testing might have to be performed a number of times. The auditor needs some hindsight to perform this testing.</p> <p>In addition to areas of estimation judgment, retrospective procedures on the details of specific accounts are sometimes in order, for example, to follow up on the veracity of representations, issuance of documents (such as invoicing unbilled receivables), and collection of specified unpaid balances. These tests can sometimes lead to detection of falsified documentation that might otherwise go undetected. Procedures of this nature add to the unpredictability of what auditors might find as serve as a deterrent to fraud.</p>

Par No	Comment
64	Consideration should be given to requiring the auditor to perform retrospective procedures on the details of specific accounts such as collection of outstanding receivables or invoicing of unbilled receivables. These tests could detect falsified documentation that might otherwise go undetected. In addition, procedures of this nature might strengthen the concept of unpredictability.
66	As noted in the body of our letter, more emphasis should be given to the need to evaluate the business rationale for significant unusual transactions. There should also be more discussion on the potential for fraudulent financial reporting resulting from missing inadequate or misleading disclosures in financial statements.
67	It would be useful to include a reference to the inappropriate use of suspense-type accounts.
73	It would be useful to expand the last sentence of this paragraph to indicate what type of information would be obtained. We believe that the point is that the auditor with final responsibility for the audit should ascertain that the “communication loop has been completed”.
78	This paragraph ends with an observation about “lower-level” employees. We wonder whether this should be “non-management” employees.
82	It would be useful to cross-reference each of the bulleted points to the relevant sections of the standard.
	<i>Second bullet</i> – we question whether this type of documentation would be meaningful.
	<i>Second last bullet</i> – it not clear how this documentation is different from the documentation required by the third bullet.
	<i>Last bullet</i> – it is not clear what is meant by “the nature” of the communications.
	Additional matters to be documented: results of the audit team debriefings and results of mandatory procedures.
Appendix A	This discussion contains references to “personal net worth.” It would be helpful to include a footnote to note that auditors are not expected to know this type of information, but may become aware of it during the course of their work.
Appendix A	Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting – it would be helpful, under “attitudes/rationalizations” to add a risk factor related to override of company policies and procedures involving conflicts of interests or related party transactions.