

**Comparison of black letter paragraphs of draft ED and extant ISA 240**

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<b>Black letter in Draft ED</b>	<b>Black letter in Extant ISA 240</b>	<b>Comment</b>
3. When planning and performing the audit to reduce audit risk to an acceptably low level the auditor should consider the risk of material misstatements in the financial statements resulting from fraud.	2. When planning and performing audit procedures and evaluating and reporting the results thereof, the auditor should consider the risk of material misstatements in the financial statements resulting from fraud or error.	Similar overall black letter – New black letter ties into new ISA 200.14
22. When conducting the audit, the auditor should that recognize the possibility that a material misstatement due to fraud could exist, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity.		New black letter to pick up basic principles and essential procedures in SAS 99.
24. The members of the audit team should discuss the susceptibility of the entity's financial statements to material misstatement due to fraud.	20. In planning the audit, the auditor should discuss with other members of the audit team the susceptibility of the entity to material misstatements in the financial statements resulting from fraud or error.	Similar black letter – language change to conform to ARM

Black letter in Draft ED	Black letter in Extant ISA 240	Comment
<p>27. The auditor should make inquiries of management to obtain an understanding of:</p> <ul style="list-style-type: none"> <li>(a) management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>(b) management's process for identifying and responding to the risks of fraud in the entity, including any specific fraud risks that management has identified or account balances or classes of transactions for which a risk of fraud may be likely to exist; and</li> <li>(c) the internal control management has designed and implemented to mitigate specific fraud risks that management has identified, or that otherwise help to prevent, deter, and detect fraud, and to obtain an understanding of how management monitors internal control.</li> </ul>	<p>22. When planning the audit, the auditor should make inquiries of management:</p> <ul style="list-style-type: none"> <li>(a) to obtain an understanding of: <ul style="list-style-type: none"> <li>(i) management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; and</li> <li>(ii) the accounting and internal control systems management has put in place to address such risk;</li> </ul> </li> <li>(b) to obtain knowledge of management's understanding regarding the accounting and internal control systems in place to prevent and detect error;</li> <li>(c) to determine whether management is aware of any known fraud that has affected the entity or suspected fraud that the entity is investigating; and</li> <li>(d) to determine whether management has discovered any material errors</li> </ul>	<p>Black lettered is similar with language change to conform to ARM – except for extant ISA 240.22 (d) – which will need to be repositioned</p>
<p>32. The auditor should make inquiries of management, and others within the entity, to determine whether they have knowledge of any fraud or suspected fraud affecting the entity or whether they are aware of any allegations of fraud or suspected fraud affecting the entity.</p>		<p>New black letter to pick up basic principles and essential procedures in SAS 99.</p>
<p>37. The auditor should makes inquiries of those charged with governance to obtain an understanding of how they exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</p>		<p>New black letter to pick up basic principles and essential procedures in SAS 99.</p>

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41. When obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether the information obtained indicates that one or more fraud risks factors are present.	32. When assessing inherent risk and control risk in accordance with ISA 400, "Risk Assessments and Internal Control," the auditor should consider how the financial statements might be materially misstated as a result of fraud or error. In considering the risk of material misstatement resulting from fraud, the auditor should consider whether fraud risk factors are present that indicate the possibility of either fraudulent financial reporting or misappropriation of assets.	Similar black letter – language change to conform to ARM
49. The auditor should assess the risk of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.		Black letter to conform with ARM
51. The auditor should determine overall responses to address the risk of material misstatement due to fraud at the financial statement level and should design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risk of material misstatement at the assertion level.	39. Based on the auditor's assessment of inherent and control risks (including the results of any tests of controls), the auditor should design substantive procedures to reduce to an acceptably low level the risk that misstatements resulting from fraud and error that are material to the financial statements taken as a whole will not be detected. In designing the substantive procedures, the auditor should address the fraud risk factors that the auditor has identified as being present.	Similar black letter – language change to conform to ARM

Black letter in Draft ED	Black letter in Extant ISA 240	Comment
<p>61. To further respond to the risk of management override of controls, the auditor should design and perform audit procedures to:</p> <p>(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements;</p> <p>(b) Review accounting estimates for biases that could result in material misstatement due to fraud;</p> <p>(c) Obtain an understanding of the business rationale of any transactions that the auditor becomes aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment</p>	<p>42. When the auditor encounters circumstances that may indicate that there is a material misstatement in the financial statements resulting from fraud or error, the auditor should perform procedures to determine whether the financial statements are materially misstated.</p>	<p>New black letter to pick up basic principles and essential procedures in SAS 99.</p>
<p>68. The auditor should incorporate an element of unpredictability in the selection from year to year of auditing procedures to be performed.</p>		<p>New black letter to pick up basic principles and essential procedures in SAS 99.</p>
<p>69. When the auditor identifies a misstatement, the auditor should consider whether such a misstatement may be indicative of fraud and if there is such an indication, the auditor should consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations.</p>	<p>46. When the auditor identifies a misstatement, the auditor should consider whether such a misstatement may be indicative of fraud and if there is such an indication, the auditor should consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations.</p>	<p>Same black letter</p>
	<p>48. When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud or error, the auditor should consider the implications for the audit.</p>	<p>Not necessary – covered by other black lettered paragraphs that conform with ARM</p>

Black letter in Draft ED	Black letter in Extant ISA 240	Comment
<p>73. The auditor should obtain written representations from management that:</p> <ul style="list-style-type: none"> <li>(a) It acknowledges its responsibility for design and implementation of internal control to prevent and detect fraud;</li> <li>(b) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity; and</li> <li>(c) It has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.</li> </ul>	<p>51. The auditor should obtain written representations from management that:</p> <ul style="list-style-type: none"> <li>(a) it acknowledges its responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error;</li> <li>(b) it believes the effects of those uncorrected financial statement misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the written representation;</li> <li>(c) it has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity; and</li> <li>(d) it has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.</li> </ul>	<p>Extant ISA 51(b) to be included as amendment to ISA 580 Management Representations – other representation requirements are consistent with extant ISA 240</p>
	<p>56. When the auditor identifies a misstatement resulting from fraud, or a suspected fraud, or error, the auditor should consider the auditor's responsibility to communicate that information to management, those charged with governance and, in some circumstances, to regulatory and enforcement authorities.</p>	<p>Not considered necessary given elimination of consideration of error and other black lettered requirements in Draft ED</p>
	<p>59. If the auditor has identified a material misstatement resulting from error, the auditor should communicate the misstatement to the appropriate level of management on a timely basis, and consider the need to report it to those charged with governance in accordance with ISA 260, "Communication of Audit Matters with Those Charged with Governance."</p>	<p>To be included as amendment to ISA 320 Audit Materiality</p>

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	60. The auditor should inform those charged with governance of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	To be included as an amendment to ISA 260 Communication of Audit Matters to Those Charged with Governance
76. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters to an appropriate level of management.	62. If the auditor has: (a) identified a fraud, whether or not it results in a material misstatement in the financial statements; or (b) obtained evidence that indicates that fraud may exist (even if the potential effect on the financial statements would not be material);  the auditor should communicate these matters to the appropriate level of management on a timely basis, and consider the need to report such matters to those charged with governance in accordance with ISA 260, "Communication of Audit Matters with Those Charged with Governance."	The Task Force has not had a chance to debate the black letter requirements related to Communications.  The paragraphs have been drafted to pick up the basic principles and essential procedures in SAS 99 taking into account the other black letter requirements of the Draft ED and those in the ARM ED.
78. If the auditor has identified fraud involving senior management and fraud (whether caused by senior management or other employees) that results in a material misstatement in the financial statements the auditor should communicate these matters to those charged with governance.		New black letter to pick up basic principles and essential procedures in SAS 99.
79. The auditor should reach an understanding with those charged with governance regarding the nature and extent of communications with those charged with governance about fraud involving misappropriation of assets by a lower-level employee.		New black letter to pick up basic principles and essential procedures in SAS 99.

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<p>80. The auditor should make those charged with governance or management aware, as soon as practicable, and at the appropriate level of responsibility, of material weaknesses in the design and implementation of internal control to prevent fraud which may have come to the auditor's attention.</p>	<p>65. The auditor should communicate to management any material weaknesses in internal control related to the prevention or detection of fraud and error, which have come to the auditor's attention as a result of the performance of the audit. The auditor should also be satisfied that those charged with governance have been informed of any material weaknesses in internal control related to the prevention and detection of fraud that either have been brought to the auditor's attention by management or have been identified by the auditor during the audit.</p>	<p>Similar black letter – language has been changed to conform with ARM</p>
<p>84. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit the auditor should:</p> <ul style="list-style-type: none"> <li>(a) consider the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;</li> <li>(b) consider the possibility of withdrawing from the engagement; and</li> <li>(c) if the auditor withdraws: <ul style="list-style-type: none"> <li>(i) discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and</li> <li>(ii) consider whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.</li> </ul> </li> </ul>	<p>69 If the auditor concludes that it is not possible to continue performing the audit as a result of a misstatement resulting from fraud or suspected fraud, the auditor should:</p> <ul style="list-style-type: none"> <li>(a) consider the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;</li> <li>(b) consider the possibility of withdrawing from the engagement; and</li> <li>(c) if the auditor withdraws: <ul style="list-style-type: none"> <li>(i) discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and</li> <li>(ii) consider whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.</li> </ul> </li> </ul>	<p>Similar black letter – lead-in language has been modified slightly</p>

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<p>88. The auditor should document:</p> <ul style="list-style-type: none"> <li>(a) The discussion among the audit team regarding the susceptibility of the entity's financial statements due to fraud, including how and when the discussion occurred, the audit team members who participated and the subject matter discussed;</li> <li>(b) The results of the risk assessment of material misstatement due to fraud at the financial statement level and at the assertion level;</li> <li>(c) The specific risk of material misstatement due to fraud and the overall responses to these risk at the financial statement level and the nature, timing and extent or the further audit procedures, the linkage of those procedures with the assessed risks at the assertion level and the results of the audit procedures;</li> <li>(d) The results of the audit procedures designed and performed to further respond to the risk of management override of controls;</li> <li>(e) The nature of the communications about fraud made to management, those charged with governance and others.</li> </ul>	<p>49. The auditor should document fraud risk factors identified as being present during the auditor's assessment process (see paragraph 32) and document the auditor's response to any such factors (see paragraph 39). If during the performance of the audit, fraud risk factors are identified that cause the auditor to believe that additional audit procedures are necessary, the auditor should document the presence of such risk factors and the auditor's response to them.</p>	<p>The Task Force has not had a chance to debate this requirement.</p> <p>The paragraph has been drafted to pick up the principles and essential procedures in SAS 99, taking into account the other black lettered requirements in the Draft ED and those in the ARM EDs</p>
	<p>73. As stated in the "Code of Ethics for Professional Accountants" issued by the International Federation of Accountants ("the Code"), on receipt of an inquiry from a proposed successor auditor, the existing auditor should advise whether there are any professional reasons why the proposed successor auditor should not accept the appointment. If the client denies the existing auditor permission to discuss its affairs with the proposed successor auditor or limits what the existing auditor may say, that fact should be disclosed to the proposed successor auditor.</p>	<p>As noted in cover agenda paper, the Task Force believes this is appropriately dealt with in the Code of Ethics and therefore has deleted this paragraph.</p>