

### Conforming and Consequential Amendments Arising from Proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

MARKED FROM EXTANT<sup>1</sup>

This paper includes the paragraphs identified across the IAASB standards that may be affected as a result of the revision of ISA 240,<sup>2</sup> except for those in ISRE 2410<sup>3</sup> and the *Framework for Audit Quality*.<sup>4</sup> The proposed conforming and consequential amendments arising from the proposed revision to ISA 240 are shown in markup (i.e., shown in underline and strikethrough).

To assist navigating in this long document, use the navigation panel in word (**press Ctrl+F and select "Headings," or click View > Navigation Pane**) or open the bookmarks in pdf.

## ISA 200, OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

### Introduction

#### An Audit of Financial Statements

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9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the ISAs or by applicable law or regulation.<sup>5</sup>

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### Application and Other Explanatory Material

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#### Professional Skepticism (Ref: Para. 15)

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<sup>1</sup> See the 2022 Edition of the IAASB Handbook, including conforming and consequential amendments arising from new and revised standards not yet effective.

<sup>2</sup> International Standard on Auditing (ISA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>3</sup> International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. Note: An editorial change was made to ISRE 2410 paragraph 34(e) to update a footnote reference to extant ISA 240.

<sup>4</sup> Supplement to the Handbook of the International Quality Control, Auditing, Review and Other Assurance and Related Services Pronouncements (Volume III), *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*

<sup>5</sup> See, for example, ISA 260 (Revised), *Communication with Those Charged with Governance*; and ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 44~~66~~–69

- A24. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.<sup>6</sup> In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.<sup>7</sup>

The Fraud Task Force added back the first sentence of paragraph A24. In the version presented to the Board in September, this sentence was deleted. See **Agenda Item 2**, Section I-A for the explanation of the change.

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#### **Sufficient Appropriate Audit Evidence and Audit Risk** (Ref: Para. 5 and 17)

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#### *Inherent Limitations of an Audit*

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#### Other Matters that Affect the Inherent Limitations of an Audit

- A56. In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

- Fraud, particularly fraud involving senior management or collusion. See ISA 240 (Revised) for further discussion.
- The existence and completeness of related party relationships and transactions. See ISA 550<sup>8</sup> for further discussion.
- The occurrence of non-compliance with laws and regulations. See ISA 250 (Revised)<sup>9</sup> for further discussion.
- Future events or conditions that may cause an entity to cease to continue as a going concern. See ISA 570 (Revised)<sup>10</sup> for further discussion.

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<sup>6</sup> ISA 500, *Audit Evidence*, paragraphs 7–9

<sup>7</sup> ISA 240 (Revised), paragraph 1420; ISA 500, paragraph 11; ISA 505, *External Confirmations*, paragraphs 10–11, and 16

<sup>8</sup> ISA 550, *Related Parties*

<sup>9</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>10</sup> ISA 570 (Revised), *Going Concern*

## ISA 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

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### Application and Other Explanatory Material

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#### Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

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##### *Professional Skepticism (Ref: Para. 7)*

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A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

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- Modifying the nature, timing and extent of direction, supervision or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers for:
  - Complex or subjective areas of the audit;
  - Areas that pose risks to achieving quality on the audit engagement;
  - Areas where there may be a higher risk of material misstatement, including a risk of material misstatement due to fraud~~with a fraud risk~~; and
  - Identified or suspected non-compliance with laws or regulations.

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#### Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: Para. 22–24)

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A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs, as well as this ISA, for example with respect to:

...

- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA 315 (Revised 2019) and ISA 240 (Revised); <sup>11</sup>

...

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<sup>11</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

## ISA 230, AUDIT DOCUMENTATION

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### Application and Other Explanatory Material

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## Appendix

(Ref: Para. 1)

This appendix identifies paragraphs in other ISAs that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

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- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs ~~45–48~~70

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## ISA 250 (REVISED), CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

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### Application and Other Explanatory Material

#### Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–9)

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#### *Responsibility of the Auditor*

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#### Categories of Laws and Regulations (Ref: Para. 6)

A6. The nature and circumstances of the entity may impact whether relevant laws and regulations are within the categories of laws and regulations described in paragraphs 6(a) or 6(b). Examples of laws and regulations that may be included in the categories described in paragraph 6 include those that deal with:

- ~~Fraud, c~~Corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.

- Environmental protection.
- Public health and safety.

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## **ISA 260 (REVISED), COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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### **Application and Other Explanatory Material**

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## **Appendix 1**

(Ref: Para. 3)

### **Specific Requirements in ISQM 1 and Other ISAs that Refer to Communications with Those Charged with Governance**

This appendix identifies paragraphs in ISQM 1 and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ...
- ISA 240 *(Revised)*, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs ~~22, 39(e)(i)~~25, 31(d), 59(a), 65(c)(i) and ~~41–43~~67-68
- ...

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## **ISA 265, COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**

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### **Application and Other Explanatory Material**

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#### **Significant Deficiencies in Internal Control** (Ref: Para. 6(b), 8)

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A6. Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

- ...
- The susceptibility to loss or fraud of the related asset or liability.
- ...

- The importance of the controls to the financial reporting process; for example:
  - ...
  - Controls over the prevention ~~and~~ or detection of fraud.
  - ...

...

### **Communication of Deficiencies in Internal Control**

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*Communication of Deficiencies in Internal Control to Management* (Ref: Para. 10)

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Communication of Significant Deficiencies in Internal Control to Management (Ref: Para. 10(a))

...

A21. ISA 250 (Revised) establishes requirements and provides guidance on the reporting of identified or suspected non-compliance with laws and regulations, including when those charged with governance are themselves involved in such non-compliance.<sup>12</sup> ISA 240 (Revised) establishes requirements and provides guidance regarding communication to those charged with governance when the auditor has identified fraud or suspected fraud involving management.<sup>13</sup>

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## **ISA 300, PLANNING AN AUDIT OF FINANCIAL STATEMENTS**

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### **Application and Other Explanatory Material**

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#### **Involvement of Key Engagement Team Members** (Ref: Para. 5)

A4. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.<sup>14</sup>

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<sup>12</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraphs 23–29

<sup>13</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 4267

<sup>14</sup> ISA 315 (Revised 2019), paragraphs 17 and 18, establishes requirements and provides guidance on the engagement team's discussion of the susceptibility of the entity to material misstatements of the financial statements. ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 4629, provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to material misstatement due to fraud.

## ISA 315 (REVISED 2019), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

### Introduction

...

### Key Concepts in this ISA

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6. Risks of material misstatement identified and assessed by the auditor include both those due to error and those due to fraud. Although both are addressed by this ISA, the significance of fraud is such that further requirements and guidance are included in ISA 240 (Revised)<sup>15</sup> in relation to risk assessment procedures and related activities to obtain information that is used to identify, assess and respond to the risks of material misstatement due to fraud.

...

### Definitions

12. For purposes of the ISAs, the following terms have the meanings attributed below:

...

- (f) Inherent risk factors – Characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors<sup>16</sup> insofar as they affect inherent risk. (Ref: Para. A7–A8)

...

- (l) Significant risk – An identified risk of material misstatement: (Ref: Para. A10)

...

- (ii) That is to be treated as a significant risk in accordance with the requirements of other ISAs.<sup>17</sup>

...

### Application and Other Explanatory Material

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### Risk Assessment Procedures and Related Activities (Ref: Para. 13–18)

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<sup>15</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>16</sup> ISA 240 (Revised), paragraphs A24–A27A96–A98A55–A57

<sup>17</sup> ISA 240 (Revised), paragraph 2740(b) and ISA 550, *Related Parties*, paragraph 18

A11. The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this ISA. However, the significance of fraud is such that further requirements and guidance are included in ISA 240 (Revised) in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.<sup>18</sup> In addition, the following ISAs provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

...

*Engagement Team Discussion* (Ref: Para. 17–18)

Why the Engagement Team Is Required to Discuss the Application of the Applicable Financial Reporting Framework and the Susceptibility of the Entity's Financial Statements to Material Misstatement

A42. The discussion among the engagement team about the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement:

...

ISA 240 (Revised) requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.<sup>19</sup>

...

**Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control** (Ref: Para. 19–27)

...

*Why an Understanding of the Entity and Its Environment, and the Applicable Financial Reporting Framework Is Required* (Ref: Para. 19–20)

A50. The auditor's understanding of the entity and its environment, and the applicable financial reporting framework, assists the auditor in understanding the events and conditions that are relevant to the entity, and in identifying how inherent risk factors affect the susceptibility of assertions to misstatement in the preparation of the financial statements, in accordance with the applicable financial reporting framework, and the degree to which they do so. Such information establishes a frame of reference within which the auditor identifies and assesses risks of material misstatement. This frame of reference also assists the auditor in planning the audit and exercising professional judgment and professional skepticism throughout the audit, for example, when:

- Identifying and assessing risks of material misstatement of the financial statements in accordance with ISA 315 (Revised 2019) or other relevant standards (e.g., relating to risks of material misstatement due to fraud in accordance with ISA 240 (Revised) or when identifying or assessing risks related to accounting estimates in accordance with ISA 540 (Revised));

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<sup>18</sup> ISA 240 (Revised), paragraphs 12–27, 26–42

<sup>19</sup> ISA 240 (Revised), paragraph 16, 29



*The Entity and Its Environment* (Ref: Para. 19(a))

...

Measures Used by Management to Assess the Entity's Financial Performance (Ref: Para. 19(a)(iii))

Why the auditor understands measures used by management

A74. An understanding of the entity's measures assists the auditor in considering whether such measures, whether used externally or internally, create pressures on the entity to achieve performance targets. These pressures may motivate management to take actions that increase the susceptibility to misstatement due to management bias or fraud (e.g., to improve the business performance or to intentionally misstate the financial statements) (see ISA 240 (Revised) for requirements and guidance in relation to the risks of material misstatement due to fraud).

...

*The Applicable Financial Reporting Framework* (Ref: Para. 19(b))

...

How Inherent Risk Factors Affect Susceptibility of Assertions to Misstatement (Ref: Para. 19(c))

...

The effect of inherent risk factors on a class of transactions, account balance or disclosure

...

A89. Events or conditions that may affect susceptibility to misstatement due to management bias may also affect susceptibility to misstatement due to other fraud risk factors. Accordingly, this may be relevant information for use in accordance with paragraph 2432 of ISA 240 (Revised), which requires the auditor to evaluate whether the information obtained from the other risk assessment procedures and related activities indicates that one or more fraud risk factors are present.

*Understanding the Components of the Entity's System of Internal Control* (Ref: Para. 21–27)

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Control Environment, The Entity's Risk Assessment Process and the Entity's Process to Monitor the System of Internal Control (Ref: Para. 21–24)

...

Obtaining an understanding of the entity's risk assessment process (Ref: Para. 22–23)

Understanding the entity's risk assessment process (Ref: Para. 22(a))

A109. As explained in paragraph A62, not all business risks give rise to risks of material misstatement. In understanding how management and those charged with governance have identified business risks relevant to the preparation of the financial statements, and decided about actions to address those risks, matters the auditor may consider include how management or, as appropriate, those charged with governance, has:

...

- Considered the potential for fraud when considering the risks to achieving the entity's objectives.<sup>20</sup>

...

Control Activities (Ref: Para. 26)

...

Scalability (Ref: Para. 26)

...

A157. It may be less practicable to establish segregation of duties in less complex entities that have fewer employees. However, in an owner-managed entity, the owner-manager may be able to exercise more effective oversight through direct involvement than in a larger entity, which may compensate for the generally more limited opportunities for segregation of duties. Although, as also explained in ISA 240 (Revised), domination of management by a single individual can be a potential control deficiency since there is an opportunity for management override of controls.<sup>21</sup>

Controls that address risks of material misstatement at the assertion level (Ref: Para. 26(a))

Controls that address risks that are determined to be a significant risk (Ref: Para. 26(a)(i))

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A159. ISA 240 (Revised)<sup>22</sup> requires the auditor to understand controls related to assessed risks of material misstatement due to fraud (which are treated as significant risks), and further explains that it is important for the auditor to obtain an understanding of the controls that management has designed, implemented and maintained to prevent and detect fraud.

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**Identifying and Assessing the Risks of Material Misstatement** (Ref: Para. 28–37)

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*Assessing Risks of Material Misstatement at the Assertion Level*

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Significant Risks (Ref: Para. 32)

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Determining significant risks

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<sup>20</sup> ISA 240 (Revised), paragraph 4935

<sup>21</sup> ISA 240 (Revised), paragraph A28A58

<sup>22</sup> ISA 240 (Revised), paragraphs 2840(b) and A33A98

A220. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA. ISA 240 (Revised) provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.<sup>23</sup>

**Example:**

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- An entity is in negotiations to sell a business segment. The auditor considers the effect on goodwill impairment, and may determine there is a higher likelihood of possible misstatement and a higher magnitude due to the impact of inherent risk factors of subjectivity, uncertainty and susceptibility to management bias or other fraud risk factors. This may result in goodwill impairment being determined to be a significant risk.

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## Appendix 2

(Ref: Para. 12(f), 19(c), A7–A8, A85–A89)

### Understanding Inherent Risk Factors

This appendix provides further explanation about the inherent risk factors, as well as matters that the auditor may consider in understanding and applying the inherent risk factors in identifying and assessing the risks of material misstatement at the assertion level.

### The Inherent Risk Factors

1. Inherent risk factors are characteristics of events or conditions that affect susceptibility of an assertion about a class of transactions, account balance or disclosure, to misstatement, whether due to fraud or error, and before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors<sup>24</sup> insofar as they affect inherent risk. In obtaining the understanding of the entity and its environment, and the applicable financial reporting framework and the entity's accounting policies, in accordance with paragraphs 19(a)–(b), the auditor also understands how inherent risk factors affect susceptibility of assertions to misstatement in the preparation of the financial statements.
2. Inherent risk factors relating to the preparation of information required by the applicable financial reporting framework (referred to in this paragraph as “required information”) include:
  - ...
  - *Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk*— susceptibility to management bias results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in

<sup>23</sup> ISA 240 (Revised), paragraphs 26–2840–42

<sup>24</sup> ISA 240 (Revised), paragraphs A24A27A55–A57

preparing the information. Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional. Such indicators include incentives or pressures insofar as they affect inherent risk (for example, as a result of motivation to achieve a desired result, such as a desired profit target or capital ratio), and opportunity, not to maintain neutrality. Factors relevant to the susceptibility to misstatement due to fraud in the form of fraudulent financial reporting or misappropriation of assets are described in paragraphs A4A2 to A5A6 of ISA 240 (Revised).

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## Appendix 4

(Ref: Para 14(a), 24(a)(ii), A25–A28, A118)

### Considerations for Understanding an Entity's Internal Audit Function

This appendix provides further considerations relating to understanding the entity's internal audit function when such a function exists.

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#### Inquiries of the Internal Audit Function

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5. In addition, in accordance with ISA 240 (Revised),<sup>25</sup> if the internal audit function provides information to the auditor regarding any actual, suspected or alleged fraud, the auditor takes this into account in the auditor's identification of risk of material misstatement due to fraud.

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### ISA 330, THE AUDITOR'S RESPONSES TO ASSESSED RISKS

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#### Application and Other Explanatory Material

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#### Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

*The Nature, Timing and Extent of Further Audit Procedures* (Ref: Para. 6)

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#### Timing

- A11. The auditor may perform tests of controls or substantive procedures at an interim date or at the period end. The higher the risk of material misstatement, the more likely it is that the auditor may decide it is

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<sup>25</sup> ISA 240 (Revised), paragraph 4935(b)

more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date, or to perform audit procedures unannounced or at unpredictable times (for example, performing audit procedures at selected locations on an unannounced basis). This is particularly relevant when considering the response to the risks of material misstatement due to fraud. For example, the auditor may conclude that, when the risks of intentional misstatement or manipulation have been identified, audit procedures to extend audit conclusions from interim date to the period end would not be effective.

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## **ISA 450, EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT**

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### **Requirements**

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#### **Consideration of Identified Misstatements as the Audit Progresses**

- 5A. If the auditor identifies a misstatement, the auditor shall determine whether such a misstatement is indicative of fraud. (Ref: Para. A6A)
6. The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:
- (a) The nature of identified misstatements and the circumstances of their occurrence indicate the other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or (Ref: Para. A7)
  - (b) The aggregate of misstatements accumulated during the audit approaches materiality determined with ISA 320. (Ref: Para. A8)
7. If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. (Ref: Para. A9)

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### **Application and Other Explanatory Material**

#### **Definition of Misstatement (Ref: Para. 4(a))**

- A1. Misstatements may result from:

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Examples of misstatements arising from fraud are provided in ISA 240 (Revised).<sup>26</sup>

...

#### **Consideration of Identified Misstatements as the Audit Progresses (Ref: Para. 5A–7)**

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<sup>26</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A1A2–A7A6

A6A. The nature of identified misstatements and the circumstances of their occurrence may indicate that the misstatements may be a result of fraud. In such cases, the auditor also performs the procedures required by ISA 240 (Revised), recognizing that an instance of fraud is unlikely to be an isolated occurrence.

A7. A misstatement may not be an isolated occurrence. Evidence that other misstatements may exist include, for example, where the auditor identifies that a misstatement arose from a breakdown in internal control or from inappropriate assumptions or valuation methods that have been widely applied by the entity.

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#### **Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 10–11)**

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A22. ISA 240 (Revised)<sup>27</sup> explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial statements. Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

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

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional skepticism in accordance with ISA 200.<sup>28</sup>

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## **ISA 500, AUDIT EVIDENCE**

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### **Application and Other Explanatory Material**

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#### **Information to Be Used as Audit Evidence**

*Relevance and Reliability* (Ref: Para. 7)

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#### **Reliability**

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<sup>27</sup> ISA 240 (Revised), paragraph 3656(a)

<sup>28</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 15

- A37. ISA 240 (Revised) deals with circumstances where the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.<sup>29</sup>

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## ISA 505, EXTERNAL CONFIRMATIONS

### Introduction

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#### External Confirmation Procedures to Obtain Audit Evidence

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3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:

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- ISA 240 (Revised) indicates that the auditor may design external confirmation procedures ~~requests to obtain audit evidence~~ ~~additional corroborative information~~ as a response to address the assessed risks of material misstatement due to fraud at the assertion level.<sup>30</sup>

...

### Requirements

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#### Management's Refusal to Allow the Auditor to Send a Confirmation Request

8. If management refuses to allow the auditor to send a confirmation request, the auditor shall:
- (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness; (Ref: Para. A8)
  - (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of material misstatement due to ~~of~~ fraud, and on the nature, timing and extent of other audit procedures; and (Ref: Para. A9)
  - (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref: Para. A10)

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#### Results of the External Confirmation Procedures

##### *Reliability of Responses to Confirmation Requests*

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<sup>29</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 4420

<sup>30</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs ~~A38~~A119–A124

11. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of material misstatement due to~~to~~ fraud, and on the related nature, timing and extent of other audit procedures. (Ref: Para. A17)

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## Application and Other Explanatory Material

### External Confirmation Procedures

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#### *Designing Confirmation Requests* (Ref: Para. 7(c))

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- A4. Factors to consider when designing confirmation requests include:

- The assertions being addressed.
- Specific identified risks of material misstatement, including risk of material misstatement due to~~fraud risks~~.
- The layout and presentation of the confirmation request.
- Prior experience on the audit or similar engagements.
- The method of communication (for example, in paper form, or by electronic or other medium).
- Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.
- The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).

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### Management's Refusal to Allow the Auditor to Send a Confirmation Request

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#### *Implications for the Assessment of Risks of Material Misstatement* (Ref: Para. 8(b))

- A9. The auditor may conclude from the evaluation in paragraph 8(b) that it would be appropriate to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures in accordance with ISA 315 (Revised 2019).<sup>31</sup> For example, if management's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).<sup>32</sup>

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<sup>31</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 37

<sup>32</sup> ISA 240 (Revised), paragraph 25<sup>32</sup>



## Results of the External Confirmation Procedures

### *Reliability of Responses to Confirmation Requests* (Ref: Para. 10)

A11. ISA 500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.<sup>16</sup> All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

...

### *Unreliable Responses* (Ref: Para. 11)

A17. When the auditor concludes that a response is unreliable, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures accordingly, in accordance with ISA 315 (Revised 2019).<sup>33</sup> For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).<sup>34</sup>

### *Non-Responses* (Ref: Para. 12)

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A19. The nature and extent of alternative audit procedures are affected by the account and assertion in question. A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with ISA 315 (Revised 2019).<sup>35</sup> For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).<sup>36</sup>

...

### *Exceptions* (Ref: Para. 14)

A21. Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements. When a misstatement is identified, the auditor is required by ISA 450<sup>37</sup> ~~ISA 240~~ to determine evaluate whether such misstatement is indicative of fraud.<sup>38</sup> Exceptions may provide a guide to the quality of responses from similar confirming parties or for

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<sup>33</sup> ISA 315 (Revised 2019), paragraph 37

<sup>34</sup> ISA 240 (Revised), paragraph 25~~32~~

<sup>35</sup> ISA 315 (Revised 2019), paragraph 37

<sup>36</sup> ISA 240 (Revised), paragraph 25~~32~~

<sup>37</sup> ISA 450, Evaluation of Misstatements Identified during the Audit, paragraph 5A

<sup>38</sup> ~~ISA 240, paragraph 36~~

similar accounts. Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.

...

## **ISA 540 (REVISED), AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES**

### **Application and Other Explanatory Material**

...

#### **Risk Assessment Procedures and Related Activities**

...

*Reviewing the Outcome or Re-Estimation of Previous Accounting Estimates* (Ref: Para. 14)

...

A57. A retrospective review of management judgments and assumptions related to significant accounting estimates is required by ISA 240 (Revised).<sup>39</sup> As a practical matter, the auditor's review of previous accounting estimates as a risk assessment procedure in accordance with this ISA may be carried out in conjunction with the review required by ISA 240 (Revised).

...

#### **Indicators of Possible Management Bias** (Ref: Para. 32)

...

A136. In addition, in applying ISA 240 (Revised), the auditor is required to evaluate whether management's judgments and decisions in making the accounting estimates included in the financial statements are ~~indicate indicators of~~ possible management bias that may represent a material misstatement due to fraud.<sup>40</sup> Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates, which may include intentionally understating or overstating accounting estimates. Indicators of possible management bias that may also be a fraud risk factor, may cause the auditor to reassess whether the auditor's risk assessments, in particular the assessment of risks of material misstatement due to fraud ~~risks~~, and related responses remain appropriate.

...

## **ISA 550, RELATED PARTIES**

### **Introduction**

#### **Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on

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<sup>39</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 33(b)(ii) ~~28~~

<sup>40</sup> ISA 240 (Revised), paragraphs 33(b) ~~51–52~~

how ISA 315 (Revised 2019),<sup>41</sup> ISA 330,<sup>42</sup> and ISA 240 (Revised)<sup>43</sup> are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

...

## Responsibilities of the Auditor

...

5. In addition, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA 240 (Revised),<sup>44</sup> because fraud may be more easily committed through related parties.

...

## Requirements

### Risk Assessment Procedures and Related Activities

11. As part of the risk assessment procedures and related activities that ISA 315 (Revised 2019) and ISA 240 (Revised) require the auditor to perform during the audit,<sup>45</sup> the auditor shall perform the audit procedures and related activities set out in paragraphs 12–17 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. (Ref: Para. A8)

### Understanding the Entity's Related Party Relationships and Transactions

12. The engagement team discussion that ISA 315 (Revised 2019) and ISA 240 (Revised) require<sup>46</sup> shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions. (Ref: Para. A9–A10)

...

### Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

...

19. If the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties, the auditor shall consider such information when identifying and assessing the risks of material misstatement due to fraud in accordance with ISA 240 (Revised). (Ref: Para. A6, A29–A30)

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<sup>41</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>42</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>43</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>44</sup> ISA 240 (Revised), paragraph 25~~32~~

<sup>45</sup> ISA 315 (Revised 2019), paragraph 13; ISA 240 (Revised), paragraph 47~~26~~

<sup>46</sup> ISA 315 (Revised 2019), paragraph 17; ISA 240 (Revised), paragraph 46~~29~~

...

## **Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions**

...

### *Identified Significant Related Party Transactions outside the Entity's Normal Course of Business*

23. For identified significant related party transactions outside the entity's normal course of business, the auditor shall:
- (a) Inspect the underlying contracts or agreements, if any, and evaluate whether:
    - (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;<sup>47</sup> (Ref: Para. A38–A39)
    - (ii) The terms of the transactions are consistent with management's explanations; and
    - (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
  - (b) Obtain audit evidence that the transactions have been appropriately authorized and approved. (Ref: Para. A40–A41)

...

## **Application and Other Explanatory Material**

...

### **Risk Assessment Procedures and Related Activities**

...

#### *Understanding the Entity's Related Party Relationships and Transactions*

...

The Entity's Controls over Related Party Relationships and Transactions (Ref: Para. 14)

...

A19. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively.<sup>48</sup> The risk of management override of controls is higher if management has relationships that involve control or significant influence with parties with which the entity does business because these relationships may present management with greater incentives and opportunities to perpetrate fraud. For example, management's financial interests in certain related parties may provide incentives for management to override controls by (a) directing the entity, against

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<sup>47</sup> ISA 240 (Revised), paragraph 33(e)53

<sup>48</sup> ISA 240 (Revised), paragraphs 3242 and A4A5

its interests, to conclude transactions for the benefit of these parties, or (b) colluding with such parties or controlling their actions. Examples of possible fraud include:

- Creating fictitious terms of transactions with related parties designed to misrepresent the business rationale of these transactions.
- Fraudulently organizing the transfer of assets from or to management or others at amounts significantly above or below market value.
- Engaging in complex transactions with related parties, such as special-purpose entities, that are structured to misrepresent the financial position or financial performance of the entity.

...

### **Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions**

*Fraud Risk Factors Associated with a Related Party with Dominant Influence* (Ref: Para. 19)

A29. Domination of management by a single person or small group of persons without compensating controls is a fraud risk factor.<sup>49</sup> Indicators of dominant influence exerted by a related party include:

- The related party has vetoed significant business decisions taken by management or those charged with governance.
- Significant transactions are referred to the related party for final approval.
- There is little or no debate among management and those charged with governance regarding business proposals initiated by the related party.
- Transactions involving the related party (or a close family member of the related party) are rarely independently reviewed and approved.

Dominant influence may also exist in some cases if the related party has played a leading role in founding the entity and continues to play a leading role in managing the entity.

...

### **Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions** (Ref: Para. 20)

A31. The nature, timing and extent of the further audit procedures that the auditor may select to respond to the assessed risks of material misstatement associated with related party relationships and transactions depend upon the nature of those risks and the circumstances of the entity.<sup>50</sup>

...

A33. If the auditor has assessed a significant risk of material misstatement due to fraud as a result of the presence of a related party with dominant influence, the auditor may, in addition to the general requirements of ISA 240 (Revised), perform audit procedures such as the following to obtain an

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<sup>49</sup> ISA 240 (Revised), Appendix 1

<sup>50</sup> ISA 330 provides further guidance on considering the nature, timing and extent of further audit procedures. ISA 240 (Revised) establishes requirements and provides guidance on appropriate responses to assessed risks of material misstatement due to fraud.

understanding of the business relationships that such a related party may have established directly or indirectly with the entity and to determine the need for further appropriate substantive audit procedures:

...

*Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions*

...

Intentional Non-Disclosure by Management (Ref: Para. 22(e))

A37. The requirements and guidance in ISA 240 (Revised) regarding the auditor's responsibilities relating to fraud in an audit of financial statements are relevant where management appears to have intentionally failed to disclose related parties or significant related party transactions to the auditor. The auditor may also consider whether it is necessary to re-evaluate the reliability of management's responses to the auditor's inquiries and management's representations to the auditor.

...

## ISA 580, WRITTEN REPRESENTATIONS

...

### Application and Other Explanatory Material

...

## Appendix 1

(Ref: Para. 2)

### List of ISAs Containing Requirements for Written Representations

This appendix identifies paragraphs in other ISAs that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraph 4065

...

## Appendix 2

(Ref: Para. A21)

### Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs. It is assumed in this illustration that the applicable financial reporting framework is International Financial Reporting Standards; the requirement of ISA 570 (Revised)<sup>1</sup> to obtain a written representation is not

relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

...

#### Information Provided

- We have provided you with:<sup>51</sup>
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (ISA 240 (Revised))
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements. (ISA 240 (Revised))
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (ISA 240 (Revised))
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA 550)
- [Any other matters that the auditor may consider necessary (see paragraph A11 of this ISA).]

...

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<sup>51</sup> If the auditor has included other matters relating to management's responsibilities in the audit engagement letter in accordance with ISA 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from management or those charged with governance.

## **ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)**

...

### **Application and Other Explanatory Material**

#### **Scope of this ISA (Ref: Para. 1–2)**

...

#### *Professional Skepticism (Ref: Para. 9)*

...

A17. The exercise of professional skepticism in a group audit may be affected by matters such as the following:

...

- The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex organizational structure may be a fraud risk factor in accordance with ISA 240 (Revised)<sup>52</sup> and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units.

...

#### **Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 30)**

...

#### *Engagement Team Discussion (Ref: Para. 30)*

...

A92. The discussion provides an opportunity to:

...

- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. ISA 240 (Revised)<sup>53</sup> requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.

...

#### **Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 33)**

...

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<sup>52</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, Appendix 1

<sup>53</sup> ISA 240 (Revised), paragraph 46~~29~~



## *Fraud*

A113. In applying ISA 240 (Revised),<sup>54</sup> the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risk that the group financial statements may be materially misstated due to fraud.
- Group management's process for identifying and responding to the fraud risks~~of fraud~~ in the group financial statements, including any specific fraud risks identified by group management, or classes of transactions, account balances, or disclosures for which a fraud risk~~of fraud~~ is higher.
- Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the fraud risks~~of fraud~~ in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and when appropriate, component management, the component auditors, and others) to the group auditor's inquiry about whether they have knowledge of any fraud or actual, suspected fraud, including allegations of~~, or alleged fraud,~~ affecting a component or the group.

...

## **Responding to the Assessed Risks of Material Misstatement (Ref: Para. 37)**

...

### *Element of Unpredictability*

A136. Incorporating an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements due to fraud.<sup>55</sup>

...

## **Evaluating the Component Auditor's Communication and the Adequacy of Their Work**

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<sup>54</sup> ISA 240 (Revised), paragraphs 40~~26~~, 34~~47~~

<sup>55</sup> ISA 240 (Revised), paragraph 30~~(c)~~~~44~~

*Communication about Matters Relevant to the Group Auditor's Conclusion with Regard to the Group Audit*  
(Ref: Para. 45)

A144. Although the matters required to be communicated in accordance with paragraph 45 are relevant to the group auditor's conclusion with regard to the group audit, certain matters may be communicated during the course of the component auditor's procedures. In addition to the matters in paragraphs 32 and 50, such matters may include, for example:

...

- Newly arising significant risks of material misstatement, including risks of material misstatement due to~~of~~ fraud;

...

**Communication with Group Management and Those Charged with Governance of the Group**

*Communication with Group Management* (Ref: Para. 54–56)

...

A160. ISA 240 (Revised)<sup>56</sup> contains requirements and guidance on the communication of fraud to management and, when management may be involved in the fraud, to those charged with governance.

...

**Appendix 2**

(Ref: Para. A88)

**Understanding the Group's System of Internal Control**

...

**The Group's Risk Assessment Process**

3. The group auditor's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the fraud risk~~of fraud~~, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group's risk assessment process is and the involvement of entities and business units in this process.

...

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<sup>56</sup> ISA 240 (Revised), paragraphs 41–43~~66–68~~

## ISA 610, USING THE WORK OF INTERNAL AUDITORS

...

### Application and Other Explanatory Material

...

#### Using the Work of the Internal Audit Function

*Discussion and Coordination with the Internal Audit Function* (Ref: Para. 21)

...

A26. ISA 200<sup>57</sup> discusses the importance of the auditor planning and performing the audit with professional skepticism, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention.<sup>58</sup> The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the financial statements or may be regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor's identification of risk of material misstatement due to fraud in accordance with ISA 240 (Revised).<sup>59</sup>

...

#### Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

...

*Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance* (Ref: Para. 29–31)

...

A36. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the following:

- Discussion of fraud risks. However, the external auditors may make inquiries of internal auditors about fraud risks in the organization in accordance with ISA 315 (Revised 2019).<sup>60</sup>
- Determination of unannounced audit procedures as addressed in ISA 240 (Revised).

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<sup>57</sup> ISA 200, paragraphs 15 and A21

<sup>58</sup> ISA 315 (Revised 2019), Appendix 4

<sup>59</sup> ISA 315 (Revised 2019), Appendix 4 in relation to ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>60</sup> ISA 315 (Revised 2019), paragraph 14(a)

...  
**ISA 700 (REVISED), FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS**

...  
**Requirements**

...  
**Auditor's Report**

...  
*Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing*

...  
**Auditor's Responsibilities for the Audit of the Financial Statements**

- ...  
40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A50)
- (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:
    - (i) ~~Significant~~ deficiencies in internal control that the auditor identifies during the audit; and
    - (ii) Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance;
  - (b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied; and
  - (c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters, which includes matters related to fraud. The auditor describes ~~these~~ the key audit matters, including matters related to fraud in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

...  
**Appendix**

**Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

...

**INDEPENDENT AUDITOR’S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements<sup>61</sup>**

...

**Key Audit Matters Including Matters Related to Fraud**

...

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

...

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

- ~~§~~Significant deficiencies in internal control that the auditor identifies during our audit; and
- Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance.

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<sup>61</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters, which includes matters related to fraud. We describe ~~these~~ the key audit matters, including matters related to fraud in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

...

**Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

...

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### **Report on the Audit of the Consolidated Financial Statements<sup>62</sup>**

...

#### **Key Audit Matters Including Matters Related to Fraud**

...

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

...

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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<sup>62</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

- ~~Significant~~ deficiencies in internal control that the auditor identifies during our audit; and
- Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters, which includes matters related to fraud. We describe ~~these~~ the key audit matters, including matters related to fraud in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

...

**Illustration 4 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework**

...

## INDEPENDENT AUDITOR'S REPORT

...

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

...

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

- ~~Significant~~ deficiencies in internal control that the auditor identifies during our audit; and
- Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

...

## **ISA 701, COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT**

...

### **Requirements**

...

#### **Communicating Key Audit Matters**

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters Including Matters Related to Fraud,"<sup>63</sup> unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:
  - (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and
  - (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33)

#### *Form and Content of the Key Audit Matters Section in Other Circumstances*

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a

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<sup>63</sup> Unless specifically referring to the title of the section, reference is made to the Key Audit Matters section throughout this ISA.



separate section of the auditor's report under the heading "Key Audit Matters Including Matters Related to Fraud." (Ref: Para. A57–A59)

...

## Application and Other Explanatory Material

### Scope of this ISA (Ref: Para. 2)

...

*Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report*  
(Ref: Para. 4, 12, 15)

...

A8A. ISA 240 (Revised)<sup>64</sup> includes requirements for the auditor to determine which matters related to fraud, that are communicated with those charged with governance, are key audit matters. The requirements and guidance in ISA 240 (Revised) refer to, or expand on, the application of this ISA.

### Determining Key Audit Matters (Ref: Para. 9–10)

...

*Considerations in Determining Those Matters that Required Significant Auditor Attention* (Ref: Para. 9)

...

A18A. ISA 240 (Revised)<sup>65</sup> notes that fraud related matters often are matters that require significant auditor attention and that, given the interest of users of the financial statements, fraud related matters "are ordinarily matters of most significance in the audit of the financial statements in the current period and therefore are key audit matters."

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with ISA 315 (Revised 2019) (Ref: Para. 9(a))

...

A20. ISA 315 (Revised 2019) defines a significant risk as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur.<sup>66</sup> Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

A21. ~~However, this may not be the case for all significant risks. For example, ISA 240 (Revised)~~ presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed

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<sup>64</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 61–64

<sup>65</sup> ISA 240 (Revised), paragraphs A168 and A173

<sup>66</sup> ISA 315 (Revised 2019), paragraph 12(l)

risks of material misstatement due to fraud as significant risks.<sup>67</sup> In addition, ISA 240 (Revised) indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.<sup>68</sup> The auditor may determine these matters to be fraud related key audit matters because significant risks often are matters that require significant auditor attention. However, the auditor may determine that these risks of material misstatement due to fraud did not require significant auditor attention. Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered in the auditor's determination of key audit matters ~~in accordance with paragraph 10.~~

...

## Communicating Key Audit Matters

...

### *Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 14)*

A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

...

A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements.<sup>69</sup> In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.

### *Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)*

A57. The requirement in paragraph 16 applies in three circumstances:

- (a) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).
- (b) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.

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<sup>67</sup> ISA 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, paragraphs 27–28 and 40–41.

<sup>68</sup> ISA 240 (Revised), paragraph 32 and 42.

<sup>69</sup> For example, except for certain specified circumstances, paragraph R114.2 of the IESBA Code does not permit the use or disclosure of information in respect of which the duty of confidentiality applies. As one of the exceptions, paragraph R114.3 of the IESBA Code permits the professional accountant to disclose or use confidential information where there is a legal or professional duty or right to do so. Paragraph 114.3 A1(b)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

- (c) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.

A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

**Key Audit Matters Including Matters Related to Fraud**

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section,] We have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report.

A58A. ISA 240 (Revised)<sup>70</sup> includes guidance that illustrates the presentation in the auditor's report if the auditor has determined there are key audit matters to communicate but these key audit matters do not relate to fraud.

A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

...

## ISA 705 (REVISED), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

...

### Application and Other Explanatory Material

...

#### Circumstances When a Modification to the Auditor's Opinion Is Required

...

*Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence* (Ref: Para. 6(b))

...

A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of risks of material misstatement due to fraud~~risks~~ and consideration of engagement continuance.

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<sup>70</sup> ISA 240 (Revised), paragraph A179

...

## **ISA 800 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS**

...

### **Application and Other Explanatory Material**

...

### **Appendix**

(Ref: Para. A14)

### **Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements**

...

**Illustration 3: An auditor's report on a complete set of financial statements of a listed entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The auditor is required by the regulator to communicate key audit matters in accordance with ISA 701.

...

...

### **INDEPENDENT AUDITOR'S REPORT**

...

#### **Key Audit Matters Including Matters Related to Fraud**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section above, we have determined the matters described below to be key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with ISA 701 as applied to this audit.]*

...

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

...

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

- Significant deficiencies in internal control that we identify during our audit; and
- Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

...

## **ISA 805 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS**

...

### **Application and Other Explanatory Material**

...

#### **Considerations When Planning and Performing the Audit (Ref: Para. 10)**

- A10. The relevance of each of the ISAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, ISAs such as ISA 240 (Revised),<sup>71</sup> ISA 550<sup>72</sup> and ISA 570 are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

...

## IAPN 1000 SPECIAL CONSIDERATIONS IN AUDITING FINANCIAL INSTRUMENTS

...

### Section I—Background Information about Financial Instruments

...

#### Purpose and Risks of Using Financial Instruments

...

18. The principal types of risk applicable to financial instruments are listed below. This list is not meant to be exhaustive and different terminology may be used to describe these risks or classify the components of individual risks.

...

- (d) Operational risk relates to the specific processing required for financial instruments. Operational risk may increase as the complexity of a financial instrument increases, and poor management of operational risk may increase other types of risk. Operational risk includes:

...

- (vi) The risk of loss resulting from inadequate or failed internal processes and systems, or from external events, including the fraud risk—~~of fraud~~ from both internal and external sources;

...

19. Other considerations relevant to risks of using financial instruments include:

- The fraud risk—~~of fraud~~ that may be increased if, for example, an employee in a position to perpetrate a financial fraud understands both the financial instruments and the processes for accounting for them, but management and those charged with governance have a lesser degree of understanding.

...

#### Completeness, Accuracy and Existence

...

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<sup>71</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>72</sup> ISA 550, *Related Parties*

*Trade Confirmations and Clearing Houses*

...

26. Not all transactions are settled through such an exchange. In many other markets there is an established practice of agreeing the terms of transactions before settlement begins. To be effective, this process needs to be run separately from those who trade the financial instruments to minimize the fraud risk of fraud. In other markets, transactions are confirmed after settlement has begun and sometimes confirmation backlogs result in settlement beginning before all terms have been fully agreed. This presents additional risk because the transacting entities need to rely on alternative means of agreeing trades. These may include:

...

**Section II—Audit Considerations Relating to Financial Instruments**

...

**Assessing and Responding to the Risks of Material Misstatement**

...

*Fraud Risk Factors*<sup>73</sup>

86. Incentives for fraudulent financial reporting by employees may exist where compensation schemes are dependent on returns made from the use of financial instruments. Understanding how an entity's compensation policies interact with its risk appetite, and the incentives that this may create for its management and traders, may be important in assessing the risk of material misstatement due to fraud.

...

*Procedures Relating to Completeness, Accuracy, Existence, Occurrence and Rights and Obligations*

...

104. Procedures that may provide audit evidence to support the completeness, accuracy, and existence assertions include:

...

- Reviewing journal entries and the controls over the recording of such entries. This may assist in, for example:
  - Determining if entries have been made by employees other than those authorized to do so.
  - Identifying unusual or inappropriate end-of-period journal entries, which may be relevant to risk of material misstatement due to fraud risk.

...

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<sup>73</sup> See ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, for requirements and guidance dealing with fraud risk factors.

## ISRE 2410 (REVISED), REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

...

### Management Representations

...

34. The auditor should obtain written representation from management that:

...

- (e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud;<sup>74</sup>

...

## ISAE 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

...

### Application and Other Explanatory Material

...

#### Planning and Performing the Engagement

*Planning* (Ref: Para. 40)

A86. Planning involves the engagement partner, other key members of the engagement team, and any key practitioner's external experts developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them. Adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner to properly assign work to engagement team members, and facilitates the direction, supervision, and the review of their work. Further, it assists, where applicable, the coordination of work done by other practitioners and experts. The nature and extent of planning activities will vary with the engagement circumstances, for example the complexity of the underlying subject matter and criteria. Examples of the main matters that may be considered include:

...

- The extent to which the risk of material misstatement due to ~~of~~ fraud is relevant to the engagement.

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<sup>74</sup> Paragraph 3656 of ISA 240 (Revised), *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*, explains that the nature, extent and frequency of such an assessment vary from entity to entity and that management may make a detailed assessment on an annual basis or as part of continuous monitoring. Accordingly, this representation, insofar as it relates to the interim financial information, is tailored to the entity's specific circumstances.



...

## **ISAE 3410, ASSURANCE ENGAGEMENTS ON GREENHOUSE GAS STATEMENTS**

...

### **Application and Other Explanatory Material**

...

#### **Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 23–26)**

...

##### *Risks of Material Misstatement at the GHG Statement Level (Ref: Para. 33L(a)–33R(a))*

...

A80. Risks at the GHG statement level may derive in particular from a deficient control environment. For example, deficiencies such as management's lack of competence may have a pervasive effect on the GHG statement and may require an overall response by the practitioner. Other risks of material misstatement at the GHG statement level may include, for example:

...

- Risk of material misstatement due to fraud, for example, in connection with emissions trading markets.

...