

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

[Marked from Agenda Item 2-D]

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Requirements

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Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

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Control Activities

38. In applying ISA 315 (Revised 2019),¹ the auditor shall obtain an understanding of the control activities component by identifying controls that address risks of material misstatement due to fraud at the assertion level, including: (Ref: Para. A98)
- (a) ~~c~~Controls over journal entries, designed to prevent or detect fraud; ~~and~~ (Ref: Para. A98–A100 and A102)
 - (b) ~~Other controls designed to prevent or detect fraud, that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 26 with respect to risks at the assertion level, based on the auditor's professional judgment. (Ref: Para. A101–A102)~~

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Responses to the Assessed Risks of Material Misstatement Due to Fraud

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Audit Procedures Responsive to Risks Related to Management Override of Controls

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Accounting Estimates

51. In applying ISA 540 (Revised),² the auditor shall review evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are for indicators of possible management bias that may represent a risk of material misstatement due to fraud. (Ref: Para. A138–A140)
52. In ~~designing and~~ performing the evaluation audit procedures in accordance with paragraph 51, the auditor shall:

¹ ISA 315 (Revised 2019), paragraph 26

² ISA 540 (Revised), paragraph 32

- (a) Consider the audit evidence obtained from the retrospective review performed in accordance with **paragraph 28**; and
- (b) ~~Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias that may represent a risk of material misstatement due to fraud. If indicators of possible management bias are identified, the auditor shall~~ reevaluate the accounting estimates taken as a whole. (Ref: Para. A140–A142)

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Fraud or Suspected Fraud (Ref: Para. A7–A10 and A144–A145)

54. If the auditor identifies fraud or suspected fraud, the ~~auditor engagement partner~~ shall obtain an understanding of the matter in order to determine the effect on the audit engagement. In doing so, the auditor shall, including: (Ref: Para. ~~A146~~A147–A153)
- (a) Make ~~ing~~ inquiries about the matter with ~~the an appropriate~~ level of management that is at ~~u~~ least one level above those involved and, when appropriate in the circumstances, make inquiries about the matter with those charged with governance;
 - (b) If the entity has a process to investigate the matter, ~~evaluating~~ evaluate whether it is appropriate in the circumstances;
 - (c) If the entity has implemented remediation measures to respond to the matter, ~~evaluating~~ evaluate whether they are appropriate in the circumstances; and
 - (d) ~~Determining~~ Determine whether if control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud.

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Application and Other Explanatory Material

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Professional Skepticism (Ref: Para. 7 and 19–21)

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A26A. The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. However, audit procedures performed in accordance with this or other ISAs, or information from other sources, may bring to the auditor's attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. Paragraph 20 applies if the auditor identifies such conditions during the course of the audit.

- A27. ISA 500³ requires the auditor to consider the reliability of information intended to be used as audit evidence when designing and performing audit procedures. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information. Authenticity is an attribute of the reliability of information that the auditor may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable. In doing so, the auditor may consider whether the source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered. ~~The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. However, paragraph 20 applies if the auditor identifies such conditions during the course of the audit.~~

Examples:

Conditions that, if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor include:

- Unexplained alterations to documents received from external sources.
- Serial numbers used out of sequence or duplicated.
- Addresses and logos not as expected.
- Document style different to others of the same type from the same source (e.g., changes in fonts and formatting).
- Information that would be expected to be included is absent.
- Invoice references or descriptors that differ from other invoices received from the entity.
- Unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms (e.g., purchase costs that appear unreasonable for the goods or services being charged for).
- Information that appears implausible or inconsistent with the auditor's understanding and knowledge.
- A change from authorized signatory.
- ~~"Copy" documents presented rather than originals.~~
- Electronic documents with a last edited date that is after the date they were represented as finalized.

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³ ISA 500, paragraph 7