

Comparison Between Requirements in ED-240¹ and Proposed ISA 240 (Revised)²

The table below compares the requirements in ED-240 (left column) with the requirements in proposed ISA 240 (Revised) (right column) as presented in **Agenda Item 2-C**. The purpose of the table is explained in **Agenda Item 2**. When paragraphs in ED-240 have been moved to a different location or incorporated into other paragraphs in proposed ISA 240 (Revised), comments have been provided to assist in navigation.

ED-240	Proposed ISA 240 (Revised)
Introduction	Introduction
Scope of this ISA	Scope of this ISA
1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements and the implications for the auditor's report. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs, in particular ISA 200, ³ ISA 220 (Revised), ⁴ ISA 315	1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements and the implications for the auditor's report. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs, in particular ISA 200, ⁸ ISA 220 (Revised), ⁹ ISA 315 (Revised 2019), ¹⁰ ISA 330, ¹¹ and ISA 701. ¹² Accordingly, this ISA is

¹ Exposure Draft (ED-240): [Proposed International Standard on Auditing 240 \(Revised\), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs](#).

² Proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³ International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹⁰ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹¹ ISA 330, *The Auditor's Responses to Assessed Risks*

¹² ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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(Revised 2019), ⁵ ISA 330 ⁶ and ISA 701. ⁷	intended to be applied in conjunction with other relevant ISAs. ¹³
Responsibilities of the Auditor, Management and Those Charged with Governance	Responsibilities of the Auditor, Management and Those Charged with Governance
<p><i>Responsibilities of the Auditor</i></p> <p>2. The auditor's responsibilities relating to fraud when conducting an audit in accordance with this ISA, and other relevant ISAs, are to: (Ref: Para. A1)</p> <p>(a) Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. These responsibilities include identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address those assessed risks.</p> <p>(b) Communicate and report about matters related to fraud.</p>	<p><i>Responsibilities of the Auditor</i></p> <p>2. The auditor's responsibilities relating to fraud when conducting an audit in accordance with this ISA, and other relevant ISAs, are to: (Ref: Para. A1)</p> <p>(a) Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. These responsibilities include identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address those assessed risks.</p> <p>(b) Communicate and report about matters related to fraud.</p>
<p><i>Responsibilities of Management and Those Charged with Governance</i></p> <p>3. The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place,</p>	<p><i>Responsibilities of Management and Those Charged with Governance</i></p> <p>3. The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place,</p>

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

⁷ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹³ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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<p>and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating and maintaining a culture of honesty and ethical behavior that can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings.</p>	<p>and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating and maintaining a culture of honesty and ethical behavior that can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings in order to influence the perceptions of financial statement users regarding the entity's performance.</p>
Key Concepts in this ISA	Key Concepts in this ISA
<p><i>Characteristics of Fraud</i></p> <p>4. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.</p>	<p><i>Characteristics of Fraud</i></p> <p>4. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.</p>
<p>5. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. (Ref: Para. A2–A6)</p>	<p>5. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. (Ref: Para. A2–A6)</p>
<p>Fraud or Suspected Fraud</p> <p>6. Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations of whether fraud has actually occurred.</p>	<p>Fraud or Suspected Fraud</p> <p>6. Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations of whether fraud has actually occurred.</p>

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<p>7. The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with this and other ISAs. Suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit. (Ref: Para. A7–A10 and A29)</p>	<p>7. The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with this and other ISAs. Suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit. (Ref: Para. A7–A10 and A27)</p>
<p>Circumstances Giving Rise to the Fraud and the Identified Misstatements</p> <p>8. The auditor's determination of whether a fraud or suspected fraud is material to the financial statements involves the exercise of professional judgment. This includes consideration of the nature of the circumstances giving rise to the fraud or suspected fraud and the identified misstatement(s). Judgments about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)</p>	<p>8. The auditor's determination of whether a fraud or suspected fraud is material to the financial statements involves the exercise of professional judgment. For identified misstatement(s) due to fraud, this includes consideration of the nature of the circumstances giving rise to the fraud. Judgments about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)</p>
<p><i>Inherent Limitations</i></p> <p>9. While the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance.¹⁴</p>	<p><i>Inherent Limitations</i></p> <p>9. While the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance.¹⁵</p>
<p>10. Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance</p>	<p>10. Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance</p>

¹⁴ ISA 200, paragraph 5

¹⁵ ISA 200, paragraph 5

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with the ISAs. ¹⁶ However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. ¹⁷ (Ref: Para. A12)	with the ISAs. ¹⁸ However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. ¹⁹ (Ref: Para. A12)
11. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.	11. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.
<p><i>Professional Skepticism and Professional Judgment</i></p> <p>12. In accordance with ISA 200,²⁰ the auditor is required to plan and perform the audit with professional skepticism and to exercise professional judgment. The auditor is required by this ISA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit. (Ref: Para. A13–A14)</p>	<p><i>Professional Skepticism and Professional Judgment</i></p> <p>12. In accordance with ISA 200,²¹ the auditor is required to plan and perform the audit with professional skepticism and to exercise professional judgment. The auditor is required by this ISA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit, considering the potential for management override of controls, and recognizing that audit procedures that are effective for detecting error may not be effective in detecting fraud.</p>

¹⁶ ISA 200, paragraphs A53–A54

¹⁷ ISA 200, paragraph A54

¹⁸ ISA 200, paragraphs A53–A54

¹⁹ ISA 200, paragraph A54

²⁰ ISA 200, paragraphs 15–16

²¹ ISA 200, paragraphs 15–16

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<p>13. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level.</p>	<p>13. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. (Ref: Para. A13–A14)</p>
<p><i>Non-Compliance with Laws and Regulations</i></p> <p>14. For the purposes of this and other relevant ISAs, fraud constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this and other ISAs. ISA 250 (Revised)²² deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. Complying with this responsibility and any additional responsibilities relating to relevant ethical requirements may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance). (Ref: Para. A15–A16)</p>	<p><i>Non-Compliance with Laws and Regulations</i></p> <p>14. For the purposes of this and other relevant ISAs, fraud constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor also has responsibilities in accordance with ISA 250 (Revised).²³ (Ref: Para. A15–A16)</p>
<p>Relationship with Other ISAs</p>	<p>Relationship with Other ISAs</p>
<p>15. Some ISAs that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification</p>	<p>15. Some ISAs that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification</p>

²² ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

²³ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

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and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. In these instances, the other ISAs expand on how this ISA is applied. (Ref: Para. A17)	and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. In these instances, the other ISAs expand on how this ISA is applied. (Ref: Para. A17)
Effective Date	Effective Date
16. This ISA is effective for audits of financial statements for periods beginning on or after [DATE].	16. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2026.
Objectives	Objectives
<p>17. The objectives of the auditor are:</p> <ul style="list-style-type: none"> (a) To identify and assess the risks of material misstatement of the financial statements due to fraud; (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; (c) To respond appropriately to fraud or suspected fraud identified during the audit; and (d) To report in accordance with this ISA. 	<p>17. The objectives of the auditor are:</p> <ul style="list-style-type: none"> (a) To identify and assess the risks of material misstatement of the financial statements due to fraud; (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; (c) To respond appropriately to fraud or suspected fraud identified during the audit; and (d) To report in accordance with this ISA.
Definitions	Definitions
<p>18. For purposes of the ISAs, the following terms have the meanings attributed below:</p> <ul style="list-style-type: none"> (a) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or 	<p>18. For purposes of the ISAs, the following terms have the meanings attributed below:</p> <ul style="list-style-type: none"> (a) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or

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<p>third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A18–A21)</p> <p>(b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. (Ref: Para. A22–A23)</p>	<p>third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A18–A22)</p> <p>(b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, or an attitude or rationalization that justifies the fraudulent action. (Ref: Para. A23–A25)</p>
Requirements	Requirements
Professional Skepticism	Professional Skepticism
<p>19. In applying ISA 200,²⁴ the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. (Ref: Para. A24–A25)</p>	<p>19. In applying ISA 200,²⁵ the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. (Ref: Para. A26)</p>
<p>20. If conditions identified during the audit 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, the auditor shall investigate further. (Ref: Para. A26–A28)</p>	<p>[See paragraph 22 below]</p>
<p>21. The auditor shall remain alert throughout the audit for information that is indicative of fraud or suspected fraud. (Ref: Para. A29–A32)</p>	<p>20. The auditor shall remain alert throughout the audit for information that indicates that one or more fraud risk factors are present and circumstances that may be indicative of fraud or suspected fraud. (Ref: Para. A27–A31)</p>
<p>[See paragraph 30 below]</p>	<p>21. Where responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity are inconsistent, the auditor shall investigate the</p>

²⁴ ISA 200, paragraph 15

²⁵ ISA 200, paragraph 15

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	inconsistencies. (Ref: Para. A32)
[See paragraph 20 above]	22. If conditions identified during the audit 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, the auditor shall investigate further. (Ref: Para. A33–A36)
Engagement Resources	Engagement Resources
22. In applying ISA 220 (Revised), ²⁶ the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time and appropriate specialized skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained. (Ref: Para. A33–A36)	23. In applying ISA 220 (Revised), ²⁷ the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time and appropriate specialized skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained. (Ref: Para. A37–A41)
Engagement Performance	Engagement Performance
23. In applying ISA 220 (Revised), ²⁸ the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the audit engagement, taking into account the: (Ref: Para. A37) (a) Skills, knowledge, and experience of the individuals to be given significant engagement responsibilities; and	24. In applying ISA 220 (Revised), ²⁹ the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the audit engagement, considering matters identified during the course of the audit engagement, including: (Ref: Para. A42) (a) Fraud risk factors;

²⁶ ISA 220 (Revised), paragraphs 25–28

²⁷ ISA 220 (Revised), paragraphs 25–28

²⁸ ISA 220 (Revised), paragraph 30(b)

²⁹ ISA 220 (Revised), paragraph 30(b)

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(b) Risks of material misstatement due to fraud identified and assessed in accordance with ISA 315 (Revised 2019).	(b) Fraud or suspected fraud; and (c) Control deficiencies related to the prevention or detection of fraud.
<p>24. In making the determination in paragraph 23, the engagement partner shall consider matters identified during the course of the audit engagement, including: (Ref: Para. A38)</p> <p>(a) Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (i.e., fraud risk factors are present);</p> <p>(b) Fraud or suspected fraud; and</p> <p>(c) Control deficiencies related to the prevention or detection of fraud.</p>	[See paragraph 24 above]
Ongoing Nature of Communications with Management and Those Charged with Governance	Ongoing Nature of Communications with Management and Those Charged with Governance
25. The auditor shall communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement. (Ref: Para. A39–A43)	25. The auditor shall communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement. (Ref: Para. A43–A47)
Risk Assessment Procedures and Related Activities	Risk Assessment Procedures and Related Activities
26. In applying ISA 315 (Revised 2019), ³⁰ the auditor shall perform the procedures in paragraphs 27–39 to obtain audit evidence that provides an appropriate basis for the: (Ref: Para. A44)	26. In applying ISA 315 (Revised 2019), ³¹ the auditor shall perform the procedures in paragraphs 27–38. In doing so, the auditor shall consider whether one or more fraud risk factors are present. (Ref:

³⁰ ISA 315 (Revised 2019), paragraph 13

³¹ ISA 315 (Revised 2019), paragraphs 13–26

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<p>(a) Identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels, taking into account fraud risk factors; and</p> <p>(b) Design of further audit procedures in accordance with ISA 330.</p>	<p>Para. A48)</p>
<p><i>Information from Other Sources</i></p> <p>27. In applying ISA 315 (Revised 2019),³² the auditor shall consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present. (Ref: Para. A45–A46)</p>	<p><i>Information from Other Sources</i></p> <p>27. In applying ISA 315 (Revised 2019),³³ the auditor shall consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present. (Ref: Para. A49–A50)</p>
<p><i>Retrospective Review of the Outcome of Previous Accounting Estimates</i></p> <p>28. In applying ISA 540 (Revised),³⁴ the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. (Ref: Para. A47)</p>	<p><i>Retrospective Review of the Outcome of Previous Accounting Estimates</i></p> <p>28. In applying ISA 540 (Revised),³⁵ the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. (Ref: Para. A51)</p>

³² ISA 315 (Revised 2019), paragraphs 15–16

³³ ISA 315 (Revised 2019), paragraphs 15–16

³⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 14

³⁵ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 14

<i>Engagement Team Discussion</i>	<i>Engagement Team Discussion</i>
<p>29. In applying ISA 315 (Revised 2019),³⁶ when holding the engagement team discussion, the engagement partner and other key engagement team members shall 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. In doing so, the engagement team discussion shall include: (Ref: Para. A48–A49 and A53)</p> <p>(a) An exchange of ideas about:</p> <ul style="list-style-type: none"> (i) The entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance; (Ref: Para. A50) (ii) Fraud risk factors, including: (Ref: Para. A51–A52) <ul style="list-style-type: none"> a. Incentives or pressures on management, those charged with governance, or employees to commit fraud; b. How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and c. How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties. <p>(b) A consideration of any fraud or suspected fraud, including allegations of fraud, that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years.</p>	<p>29. In applying ISA 315 (Revised 2019),³⁷ when holding the engagement team discussion, the engagement partner and other key engagement team members shall 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. In doing so, the engagement team discussion shall include: (Ref: Para. A42, A52–A53 and A58)</p> <p>(a) An exchange of ideas about:</p> <ul style="list-style-type: none"> (i) The entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance; (Ref: Para. A54) (ii) Fraud risk factors, including: (Ref: Para. A55–A56) <ul style="list-style-type: none"> a. Incentives or pressures on management, those charged with governance, or employees to commit fraud; b. How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and c. How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties. (iii) Which types of revenue, revenue transactions or relevant assertions may give rise to the risks of material misstatement due to fraud in revenue recognition; and (iv) How management may be able to override controls. (Ref: Para. A57)

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	(b) A consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years.
<p><i>Inquiries of Management and Inconsistent Responses</i></p> <p>30. In applying ISA 500,³⁸ if the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity, are inconsistent with each other, the auditor shall:</p> <p>(a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and</p> <p>(b) Consider the effect, if any, on other aspects of the audit.</p>	<p>[See paragraph 21 above]</p>
<p><i>Analytical Procedures Performed and Unusual or Unexpected Relationships Identified</i></p> <p>31. The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud. (Ref: Para. A54)</p>	<p><i>Analytical Procedures Performed and Unusual or Unexpected Relationships Identified</i></p> <p>30. The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud. (Ref: Para. A59)</p>
<p><i>Evaluation of Fraud Risk Factors</i></p> <p>32. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present. (Ref: Para. A22–A23 and</p>	<p>[See paragraph 38 below]</p>

³⁶ ISA 315 (Revised 2019), paragraphs 17 and A42–A43

³⁷ ISA 315 (Revised 2019), paragraphs 17 and A42–A43

³⁸ ISA 500, *Audit Evidence*, paragraph 11

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A55–A58)	
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control	Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control
<p><i>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework</i></p> <p>33. In applying ISA 315 (Revised 2019),³⁹ the auditor shall obtain an understanding of matters related to the:</p> <ul style="list-style-type: none"> (a) Entity and its environment that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors, including with respect to: <ul style="list-style-type: none"> (i) The entity’s organizational structure and ownership, governance, objectives and strategy, and geographic dispersion; (Ref: Para. A59–A62) (ii) The industry; and (Ref: Para. A63) (iii) The performance measures used, whether internal or external, that may create incentives or pressures to achieve financial performance targets. (Ref: Para. A64–A66) (b) Applicable financial reporting framework and the entity’s accounting policies that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. (Ref: Para. A67) 	<p><i>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework</i></p> <p>31. In applying ISA 315 (Revised 2019),⁴⁰ based on the auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s accounting policies, the auditor shall obtain an understanding of matters that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. (Ref: Para A60–A69)</p>

³⁹ ISA 315 (Revised 2019), paragraph 19

⁴⁰ ISA 315 (Revised 2019), paragraph 19

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<p><i>Understanding the Components of the Entity's System of Internal Control</i></p> <p>Control Environment</p> <p>34. In applying ISA 315 (Revised 2019),⁴¹ the auditor shall:</p> <ul style="list-style-type: none"> (a) Obtain an understanding of how management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud. (Ref: Para. A68–A70) (b) Obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the controls that management has established to address these risks. (Ref: Para. A71–A74) (c) Make inquiries of management regarding management's communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. (d) Make inquiries of those charged with governance about: (Ref: Para. A75–A78) <ul style="list-style-type: none"> (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; (ii) Their views about whether and how the financial 	<p><i>Understanding the Components of the Entity's System of Internal Control</i></p> <p>Control Environment</p> <p>32. In applying ISA 315 (Revised 2019),⁴² the auditor shall:</p> <ul style="list-style-type: none"> (a) Obtain an understanding of: <ul style="list-style-type: none"> (i) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud. (Ref: Para. A70–A71) (ii) The entity's whistleblower program (or other program to report fraud), if the entity has such a program, including how management and, if applicable, those charged with governance address allegations of fraud made through the program. (Ref: Para. A72–A74) (iii) How those charged with governance exercise oversight of management's processes for identifying and responding to the fraud risks and the controls that management has established to address these risks. (Ref: Para. A75–A78) (b) Make inquiries of management regarding management's communications with those charged with governance regarding

⁴¹ ISA 315 (Revised 2019), paragraph 21

⁴² ISA 315 (Revised 2019), paragraph 21

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<p>statements may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; and</p> <p>(iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.</p>	<p>its processes for identifying and responding to the risks of fraud in the entity.</p> <p>(c) Make inquiries of those charged with governance about: (Ref: Para. A79–A81)</p> <p>(i) Whether they have knowledge of any fraud or suspected fraud including allegations of fraud, including those received from tips or complaints, affecting the entity, and if so, how they have responded to such matters;</p> <p>(ii) Their views about whether and how the financial statements may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; and</p> <p>(iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.</p>
<p>The Entity's Risk Assessment Process</p> <p>35. In applying ISA 315 (Revised 2019),⁴³ the auditor shall:</p> <p>(a) Obtain an understanding of how the entity's risk assessment process: (Ref: Para. A79–A88)</p> <p>(i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures</p>	<p>The Entity's Risk Assessment Process</p> <p>33. In applying ISA 315 (Revised 2019),⁴⁴ the auditor shall:</p> <p>(a) Obtain an understanding of how the entity's risk assessment process: (Ref: Para. A82–A90)</p> <p>(i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any</p>

⁴³ ISA 315 (Revised 2019), paragraph 22

⁴⁴ ISA 315 (Revised 2019), paragraph 22

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<p>for which risks of fraud exist;</p> <ul style="list-style-type: none"> (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and (iii) Addresses the assessed fraud risks. <p>(b) Make inquiries of management and of other appropriate individuals within the entity about: (Ref: Para. A89–A91)</p> <ul style="list-style-type: none"> (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and (ii) Their views on whether the financial statements may be materially misstated due to fraud. 	<p>classes of transactions, account balances, or disclosures for which risks of fraud exist;</p> <ul style="list-style-type: none"> (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and (iii) Addresses the assessed fraud risks <p>(b) Make inquiries of management and of other appropriate individuals within the entity about: (Ref: Para. A91–A94)</p> <ul style="list-style-type: none"> (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and (ii) Their views about whether and how the financial statements may be materially misstated due to fraud.
<p>The Entity's Process to Monitor the System of Internal Control</p> <p>36. In applying ISA 315 (Revised 2019),⁴⁵ the auditor shall:</p> <ul style="list-style-type: none"> (a) Obtain an understanding of aspects of the entity's process that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies. (Ref: Para. A92) (b) Make inquiries of appropriate individuals within the internal audit function (if the function exists) about whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity and to obtain their views 	<p>The Entity's Process to Monitor the System of Internal Control</p> <p>34. In applying ISA 315 (Revised 2019),⁴⁶ the auditor shall:</p> <ul style="list-style-type: none"> (a) Obtain an understanding of: <ul style="list-style-type: none"> (i) Aspects of the entity's process to monitor the system of internal control that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies identified; and (Ref: Para. A95) (ii) If the entity has an internal audit function, the internal audit function's objectives in respect of monitoring

⁴⁵ ISA 315 (Revised 2019), paragraph 24

⁴⁶ ISA 315 (Revised 2019), paragraph 24

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<p>about the risks of fraud. (Ref: Para. A93–A94)</p>	<p>controls over risks of fraud.</p> <p>(b) If the entity has an internal audit function, make inquiries of appropriate individuals within the internal audit function about whether: (Ref: Para. A96–A97)</p> <p>(i) They have performed any procedures in respect of monitoring controls over risks of fraud during the period;</p> <p>(ii) They have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity and to obtain their views about the risks of fraud; and</p> <p>(iii) They are aware of deficiencies in the system of internal control related to the prevention and detection of fraud.</p>
<p>The Information System and Communication</p> <p>37. In applying ISA 315 (Revised 2019),⁴⁷ the auditor's understanding of the entity's information system and communication relevant to the preparation of the financial statements shall include understanding how journal entries are initiated, processed, recorded, and corrected as necessary. (Ref: Para. A95–A97)</p>	<p>The Information System and Communication</p> <p>35. In applying ISA 315 (Revised 2019),⁴⁸ the auditor's understanding of the entity's information system and communication relevant to the preparation of the financial statements shall include understanding how journal entries and other adjustments are initiated, processed, recorded, and corrected as necessary. (Ref: Para. A98–A100)</p>
<p>Control Activities</p> <p>38. In applying ISA 315 (Revised 2019),⁴⁹ the auditor's understanding of the entity's control activities shall include identifying controls that address risks of material misstatement due to fraud at the assertion level, including controls over journal entries, designed to prevent or</p>	<p>Control Activities</p> <p>36. In applying ISA 315 (Revised 2019),⁵⁰ the auditor's understanding of the entity's control activities shall include: (Ref: Para. A101–A106)</p>

⁴⁷ ISA 315 (Revised 2019), paragraph 25

⁴⁸ ISA 315 (Revised 2019), paragraph 25

⁴⁹ ISA 315 (Revised 2019), paragraph 26

⁵⁰ ISA 315 (Revised 2019), paragraph 27

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detect fraud. (Ref: Para. A98–A101)	<p>(a) Identifying controls that address risks of material misstatement due to fraud, including controls over journal entries and other adjustments, designed to prevent or detect fraud;</p> <p>(b) Evaluating whether the controls are designed effectively to address the risk of material misstatement due to fraud, or effectively designed to support the operation of other controls; and</p> <p>(c) Determining whether the controls have been implemented.</p>
<p><i>Control Deficiencies Within the Entity’s System of Internal Control</i></p> <p>39. In applying ISA 315 (Revised 2019),⁵¹ based on the auditor’s evaluation of each of the components of the entity’s system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud. (Ref: Para. A102–A103)</p>	<p><i>Control Deficiencies Within the Entity’s System of Internal Control</i></p> <p>37. In applying ISA 315 (Revised 2019),⁵² based on the auditor’s evaluation of each of the components of the entity’s system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud. (Ref: Para. A107–A108)</p>
	Evaluation of Fraud Risk Factors
[See paragraph 32 above]	<p>38. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present. (Ref: Para. A23–A25 and A109 – A111)</p>

⁵¹ ISA 315 (Revised 2019), paragraph 27

⁵² ISA 315 (Revised 2019), paragraph 27

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Identifying and Assessing the Risks of Material Misstatement due to Fraud	Identifying and Assessing the Risks of Material Misstatement due to Fraud
<p>40. In applying ISA 315 (Revised 2019),⁵³ the auditor shall:</p> <ul style="list-style-type: none"> (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A104–A106) (b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such risks, evaluate whether they have been designed effectively and determine whether they have been implemented. 	<p>39. In applying ISA 315 (Revised 2019),⁵⁴ the auditor shall:</p> <ul style="list-style-type: none"> (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A112–A114) (b) Treat those assessed risks of material misstatement due to fraud at the assertion level as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such significant risks, evaluate whether they have been designed effectively and determine whether they have been implemented.
<p><i>Presumption of the Risks of Material Misstatement Due to Fraud in Revenue Recognition</i></p> <p>41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors. (Ref: Para. A107–A112)</p>	<p>[See paragraph 41 below]</p>

⁵³ ISA 315 (Revised 2019), paragraphs 28–34

⁵⁴ ISA 315 (Revised 2019), paragraphs 28–34

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[See paragraph 42 below]	<p><i>Risks of Material Misstatement Due to Fraud Related to Management Override of Controls</i></p> <p>40. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall: (Ref: Para. A115–A116)</p> <ul style="list-style-type: none"> (a) Treat the risks of management override of controls as risks of material misstatement due to fraud at the financial statement level; and (b) Determine whether such risks affect the assessment of risks at the assertion level.
[See paragraph 41 above]	<p><i>Risks of Material Misstatement Due to Fraud in Revenue Recognition</i></p> <p>41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors. (Ref: Para. A117–A123)</p>
<p><i>Significant Risks Related to Management Override of Controls</i></p> <p>42. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall treat those risks as risks of material misstatement due to fraud and thus significant risks. (Ref: Para. A113)</p>	[See paragraph 40 above]

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Responses to the Assessed Risks of Material Misstatement Due to Fraud	Responses to the Assessed Risks of Material Misstatement Due to Fraud
<p><i>Designing and Performing Audit Procedures in a Manner That Is Not Biased</i></p> <p>43. The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may contradict such assertions.</p>	<p><i>Designing and Performing Audit Procedures in a Manner That Is Not Biased</i></p> <p>42. The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may contradict such assertions.</p>
<p><i>Unpredictability in the Selection of Audit Procedures</i></p> <p>44. The auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures in determining responses to address the assessed risks of material misstatement due to fraud. (Ref: Para. A114–A115)</p>	<p><i>Unpredictability in the Selection of Audit Procedures</i></p> <p>43. In determining responses to address assessed risks of material misstatement due to fraud, the auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A124–A125)</p>
<p><i>Overall Responses</i></p> <p>45. In accordance with ISA 330,⁵⁵ the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A116)</p>	<p><i>Overall Responses</i></p> <p>44. In accordance with ISA 330,⁵⁶ the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A126)</p>
<p>46. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to</p>	<p>45. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to</p>

⁵⁵ ISA 330, paragraph 5

⁵⁶ ISA 330, paragraph 5

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<p>subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.</p>	<p>subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.</p>
<p><i>Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level</i></p> <p>47. In accordance with ISA 330,⁵⁷ the auditor shall 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. (Ref: Para. A117–A123)</p>	<p><i>Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level</i></p> <p>46. In accordance with ISA 330,⁵⁸ the auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Ref: Para. A127–A133)</p>
<p><i>Audit Procedures Responsive to Risks Related to Management Override of Controls</i></p> <p>48. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform the audit procedures in accordance with paragraphs 49–53, and determine whether other audit procedures are needed in addition to those in paragraphs 49–53, in order to respond to the identified risks of management override of controls.</p>	<p><i>Audit Procedures Responsive to Risks of Material Misstatement Due to Fraud Related to Management Override of Controls</i></p> <p>47. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform the audit procedures in accordance with paragraphs 48–52, and determine whether other audit procedures are needed in addition to those in paragraphs 48–52, in order to respond to the identified risks of management override of controls.</p>
<p>Journal Entries and Other Adjustments</p> <p>49. The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. (Ref: Para. A124–A127)</p>	<p>Journal Entries and Other Adjustments</p> <p>48. The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. (Ref: Para. A134–A137)</p>
<p>50. In designing and performing audit procedures in accordance with paragraph 49, the auditor shall:</p>	<p>49. In designing and performing audit procedures in accordance with paragraph 48, the auditor shall: (Ref: Para. A98)</p>

⁵⁷ ISA 330, paragraph 6

⁵⁸ ISA 330, paragraph 6

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<p>(a) Make inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;</p> <p>(b) Obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements throughout the period; (Ref: Para. A128–A129 and A135)</p> <p>(c) Select journal entries and other adjustments made at the end of a reporting period; and (Ref: Para. A130–A131, A132 and A134–A135)</p> <p>(d) Determine the need to test journal entries and other adjustments throughout the period. (Ref: Para. A130–A131 and A133–A134)</p>	<p>(a) Make inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;</p> <p>(b) Obtain audit evidence about the completeness of the population of journal entries and other adjustments made in the preparation of the financial statements throughout the period; (Ref: Para. A138 and A145)</p> <p>(c) Select journal entries and other adjustments made at the end of a reporting period; and (Ref: Para. A139–A141, A142 and A144–A145)</p> <p>(d) Determine the need to test journal entries and other adjustments throughout the period. (Ref: Para. A140–A141 and A143–A144)</p>
<p>Accounting Estimates</p> <p>51. In applying ISA 540 (Revised),⁵⁹ the auditor shall evaluate whether management's judgments and decisions 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. (Ref: Para. A136–A138)</p>	<p>Accounting Estimates</p> <p>50. In applying ISA 540 (Revised),⁶⁰ if indicators of possible management bias are identified, the auditor shall evaluate whether they may represent a risk of material misstatement due to fraud. (Ref: Para. A146–A148)</p>
<p>52. In performing the evaluation in accordance with paragraph 51, the auditor shall:</p>	<p>51. In performing the evaluation in accordance with paragraph 50, the auditor shall:</p>

⁵⁹ ISA 540 (Revised), paragraph 32

⁶⁰ ISA 540 (Revised), paragraph 32

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<p>(a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and</p> <p>(b) If indicators of possible management bias are identified, reevaluate the accounting estimates taken as a whole. (Ref: Para. A138–A140)</p>	<p>(a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and</p> <p>(b) If indicators of possible management bias are identified, reevaluate the accounting estimates taken as a whole. (Ref: Para. A148–A150)</p>
<p>Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual</p> <p>53. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the 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. (Ref: Para. A141)</p>	<p>Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual</p> <p>52. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the 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. (Ref: Para. A151)</p>
<p><i>Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion</i></p> <p>54. In applying ISA 520,⁶¹ the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A142–A143)</p>	<p><i>Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion</i></p> <p>53. In applying ISA 520,⁶² the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A152–A153)</p>

⁶¹ ISA 520, *Analytical Procedures*, paragraph 6

⁶² ISA 520, *Analytical Procedures*, paragraph 6

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Fraud or Suspected Fraud (Ref: Para. A7–A10, A29 and A144–A145)	Fraud or Suspected Fraud (Ref: Para. A7–A11, A27 and A154–A170)
<p>55. If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter in order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A146–A151)</p> <ul style="list-style-type: none"> (a) Make inquiries about the matter with a level of management that is at 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, evaluate whether it is appropriate in the circumstances; (c) If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances; and 	<p>54. If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter(s) in order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A156–A160A)</p> <ul style="list-style-type: none"> (a) Make inquiries about the matter(s) with the appropriate level of management and, when appropriate in the circumstances, make inquiries about the matter(s) with those charged with governance; (b) If the entity has a process to investigate the matter(s), evaluate whether it is appropriate in the circumstances; and (c) If the entity has implemented remedial actions to respond to the matter(s), evaluate whether they are appropriate in the circumstances.
<ul style="list-style-type: none"> (d) Determine whether 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. 	<p>[See paragraph 56(b) below]</p>
<p>56. Based on the understanding obtained in accordance with paragraph 55, the engagement partner shall: (Ref: Para. A152–A153)</p> <ul style="list-style-type: none"> (a) Determine whether: <ul style="list-style-type: none"> (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019); 	<p>55. Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential based on the procedures performed in paragraph 54, the engagement partner shall: (Ref: Para. A161–A163)</p> <ul style="list-style-type: none"> (a) Determine whether: <ul style="list-style-type: none"> (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and

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<ul style="list-style-type: none"> (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ISA 330; and (iii) There are additional responsibilities under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised). (b) If applicable, consider the impact on other engagements, including audit engagements from prior years. 	<p>assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019);</p> <ul style="list-style-type: none"> (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ISA 330; and (iii) There are additional responsibilities for the auditor under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised). (b) If applicable, consider the impact on prior period audits.
<p>57. If the auditor identifies a misstatement due to fraud, the auditor shall: (Ref: Para. A154–A157)</p> <ul style="list-style-type: none"> (a) Determine whether the identified misstatement is material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement; 	<p>56. If the auditor identifies a misstatement due to fraud, the auditor shall: (Ref: Para. A164–A170)</p> <ul style="list-style-type: none"> (a) Determine whether the identified misstatement is material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement;
<p>[See paragraph 55(d) above]</p>	<ul style="list-style-type: none"> (b) Determine whether 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;
<ul style="list-style-type: none"> (b) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management is involved; and (c) Reconsider the reliability of management's representations and audit evidence previously obtained when the circumstances or 	<ul style="list-style-type: none"> (c) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management is involved; and (d) Reconsider the reliability of management's representations and audit evidence previously obtained, including when the circumstances or conditions giving rise to the misstatement

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conditions giving rise to the misstatement indicate possible collusion involving employees, management or third parties	indicate possible collusion involving employees, management or third parties.
<p>58. If the auditor determines that the financial statements are materially misstated due to fraud, the auditor shall</p> <p>a) Determine the implications for the audit and the auditor's opinion on the financial statements in accordance with ISA 705 (Revised);⁶³ and:</p> <p>(b) If appropriate, obtain advice from legal counsel.</p>	<p>57. If the auditor determines that the financial statements are materially misstated due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the financial statements are materially misstated due to fraud, the auditor shall:</p> <p>(a) Determine the implications for the audit and the auditor's opinion on the financial statements in accordance with ISA 705 (Revised);⁶⁴ and</p> <p>(b) If appropriate, obtain advice from legal counsel.</p>
<p>59. If the auditor is unable to conclude whether the financial statements are materially misstated as a result of fraud, the auditor shall determine the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).</p>	[See paragraph 57 above]
Auditor Unable to Continue the Audit Engagement	Auditor Unable to Continue the Audit Engagement
<p>60. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit engagement, the auditor shall:</p> <p>(a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement</p>	<p>58. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit engagement, the auditor shall:</p> <p>(a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement</p>

⁶³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁶⁴ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

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<p>for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;</p> <p>(b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation;</p> <p>(c) If the auditor withdraws:</p> <p>(i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and</p> <p>(ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (Ref: Para. A158–A161)</p> <p>(d) Where law or regulation prohibits the auditor from withdrawing from the engagement, consider whether the exceptional circumstances will result in a disclaimer of opinion on the financial statements.</p>	<p>for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;</p> <p>(b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation;</p> <p>(c) If the auditor withdraws:</p> <p>(i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and</p> <p>(ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (Ref: Para. A171–A174)</p> <p>(d) Where law or regulation prohibits the auditor from withdrawing from the engagement, consider whether the exceptional circumstances will result in a disclaimer of opinion on the financial statements.</p>
Implications for the Auditor's Report	Auditor's Report
<p><i>Determining Key Audit Matters</i></p> <p>61. In applying ISA 701,⁶⁵ the auditor shall determine, from the matters related to fraud communicated with those charged with governance,</p>	<p><i>Determining Key Audit Matters Related to Fraud</i></p> <p>59. In applying ISA 701,⁶⁶ the auditor shall determine, from the matters related to fraud communicated with those charged with governance,</p>

⁶⁵ ISA 701, paragraph 9

⁶⁶ ISA 701, paragraph 9

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<p>those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A162–A168)</p> <ul style="list-style-type: none"> (a) Identified and assessed risks of material misstatement due to fraud; (b) The identification of fraud or suspected fraud; and (c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud. 	<p>those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A175–A181)</p> <ul style="list-style-type: none"> (a) Identified and assessed risks of material misstatement due to fraud; (b) The identification of fraud or suspected fraud; and (c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud.
<p>62. In applying ISA 701,⁶⁷ the auditor shall determine which of the matters determined in accordance with paragraph 61 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A169–A171)</p>	<p>60. In applying ISA 701,⁶⁸ the auditor shall determine which of the matters determined in accordance with paragraph 59 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A182–A184)</p>
<p><i>Communicating Key Audit Matters Related to Fraud</i></p> <p>63. In applying ISA 701,⁶⁹ in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A172–A174)</p>	<p><i>Communicating Key Audit Matters Related to Fraud</i></p> <p>61. In applying ISA 701,⁷⁰ in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A185–A190)</p>
<p>64. In applying ISA 701,⁷¹ if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters related to fraud to communicate, the auditor shall</p>	

⁶⁷ ISA 701, paragraph 10

⁶⁸ ISA 701, paragraph 10

⁶⁹ ISA 701, paragraph 11

⁷⁰ ISA 701, paragraph 11

⁷¹ ISA 701, paragraph 16

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include a statement to this effect in the Key Audit Matters section of the auditor's report. (Ref: Para. A175–A179)	
Written Representations	Written Representations
<p>65. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (Ref: Para. A180–A181)</p> <ul style="list-style-type: none"> (a) They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud and have appropriately fulfilled those responsibilities; (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; (c) They have disclosed to the auditor their knowledge of fraud or suspected fraud, including allegations of fraud, affecting the entity involving: <ul style="list-style-type: none"> (i) Management; (ii) Employees who have significant roles in internal control; or (iii) Others where the fraud could have a material effect on the financial statements; and (d) They have disclosed to the auditor their knowledge of suspected fraud, including allegations of fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others. 	<p>62. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (Ref: Para. A191–A192)</p> <ul style="list-style-type: none"> (a) They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud and have appropriately fulfilled those responsibilities; (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; (c) They have disclosed to the auditor their knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity involving: <ul style="list-style-type: none"> (i) Management; (ii) Employees who have significant roles in internal control; or (iii) Others ; and (d) They have disclosed to the auditor their knowledge of suspected fraud, including allegations of fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.

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Communications with Management and Those Charged with Governance	Communications with Management and Those Charged with Governance
<p><i>Communication with Management</i></p> <p>66. If the auditor identifies fraud or suspected fraud, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention or detection of fraud of matters relevant to their responsibilities. (Ref: Para. A182 and A183)</p>	<p><i>Communication with Management</i></p> <p>63. If the auditor identifies fraud or suspected fraud, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention or detection of fraud of matters relevant to their responsibilities. (Ref: Para. A193–A194)</p>
<p><i>Communication with Those Charged with Governance</i></p> <p>67. Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud involving:</p> <ul style="list-style-type: none"> (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements, <p>the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A182 and A184–A186)</p>	<p><i>Communication with Those Charged with Governance</i></p> <p>64. Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud, involving:</p> <ul style="list-style-type: none"> (a) Management; (b) Employees who have significant roles in internal control; or (c) Others, except for matters that are clearly inconsequential, <p>the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A193 and A195–A197)</p>

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<p>68. The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance. (Ref: Para. A182 and A187)</p>	<p>65. The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance. (Ref: Para. A193 and A198)</p>
Reporting to an Appropriate Authority Outside the Entity	Reporting to an Appropriate Authority Outside the Entity
<p>69. If the auditor identifies fraud or suspected fraud, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A188–A192)</p> <ul style="list-style-type: none"> (a) Require the auditor to report to an appropriate authority outside the entity. (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. 	<p>66. If the auditor identifies fraud or suspected fraud, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A199–A203)</p> <ul style="list-style-type: none"> (a) Require the auditor to report to an appropriate authority outside the entity. (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.
Documentation	Documentation
<p>70. In applying ISA 230,⁷² the auditor shall include the following in the audit documentation: (Ref: Para. A193)</p> <ul style="list-style-type: none"> (a) The matters discussed among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud in accordance with paragraph 29. (b) Key elements of the auditor's understanding in accordance with paragraphs 33–38, the sources of information from which the 	<p>67. In applying ISA 230,⁷³ the auditor shall include the following in the audit documentation: (Ref: Para. A204)</p> <ul style="list-style-type: none"> (a) The matters discussed among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud in accordance with paragraph 29. (b) Key elements of the auditor's understanding in accordance with paragraphs 31–36, the sources of information from which the

⁷² ISA 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix

⁷³ ISA 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix

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<p>auditor's understanding was obtained and the risk assessment procedures performed.</p> <p>(c) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, and the rationale for the significant judgments made.</p> <p>(d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion.</p> <p>(e) The results of audit procedures performed to address the risk of management override of controls, the significant professional judgments made, and the conclusions reached.</p> <p>(f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached.</p> <p>(g) The matters related to fraud or suspected fraud communicated with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters.</p>	<p>auditor's understanding was obtained and the risk assessment procedures performed.</p> <p>(c) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, and the rationale for the significant judgments made.</p> <p>(d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion.</p> <p>(e) The results of audit procedures performed to address the risk of management override of controls, the significant professional judgments made, and the conclusions reached.</p> <p>(f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached.</p> <p>(g) The matters related to fraud or suspected fraud communicated with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters.</p>