

# Agenda Item 2-H

## Conforming and Consequential Amendments – Updated [Marked from Agenda Items 2-D and 2-F]

This Agenda Item includes the proposed conforming and consequential amendments to other IAASB standards arising from the revision of ISA 240<sup>1</sup> (shown in underline and strikethrough). Updates since ED-240<sup>2</sup> are shown in track changes, all other changes are hardcoded.

This Agenda Item includes changes based on Board feedback in the plenary discussion on March 18, 2025 and are marked from **Agenda Item 2-D** and highlighted in yellow, except for the paragraphs highlighted in grey, where changes to those paragraphs were presented on March 19, 2025 in **Agenda Item 2-F**. Changes to the paragraphs highlighted in grey are marked from **Agenda Item 2-F** and highlighted in yellow.

Based on the restoration by the Board of the link of risks of material misstatement due to fraud at the financial statement level to significant risk, Fraud TF proposed to reverse the proposed conforming and consequential amendments which had been presented in Agenda Item 2-D. Therefore these amendments are **excluded** from this Agenda Item:

Standard	Paragraphs <sup>3</sup>
ISQM 1 <sup>4</sup>	Paragraph A135
ISA 220 <sup>5</sup>	Paragraph A99
ISA 260 <sup>6</sup>	Paragraphs 15, A12, A13
ISA 315 (Revised 2019)	Paragraph A183
ISA 600 (Revised) <sup>7</sup>	Paragraph 28
ISA 701 <sup>8</sup>	Paragraph A19
ISA 706 (Revised) <sup>9</sup>	Paragraph A9

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

<sup>2</sup> 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.](#)

<sup>3</sup> Paragraphs A195 of ISA 315 (Revised) and A21 of ISA 701 are retained because they contain conforming and consequential amendments, other than those related to the clarification regarding risks of material misstatement due to fraud at the financial statement level should be significant risks.

<sup>4</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>5</sup> ISA 220 (Revised), *Quality management for An Audit of Financial Statements*

<sup>6</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>7</sup> ISA 600 (Revised), *Special Considerations — Audit of Group Financial Statements (Including the Work of Component Auditors)*

<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>9</sup> ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

# 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>10</sup>

...

### Application and Other Explanatory Material

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

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- 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>11</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>12</sup>

...

#### 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:

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<sup>10</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*, paragraphs ~~44-66-69~~<sup>66-69</sup>.

<sup>11</sup> ISA 500, *Audit Evidence*, paragraphs 7–9

<sup>12</sup> ISA 240 (Revised), paragraph ~~44-2022~~; ISA 500, paragraph 11; ISA 505, *External Confirmations*, paragraphs 10–11, and 16

- 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>13</sup> for further discussion.
- The occurrence of non-compliance with laws and regulations. See ISA 250 (Revised)<sup>14</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 2024)<sup>15</sup> for further discussion.

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## 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)

...

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

...

A37. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

...

- 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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<sup>13</sup> ISA 550, *Related Parties*

<sup>14</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>15</sup> ISA 570 (Revised 2024), *Going Concern*

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

...

A55. 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>16</sup>

...

**ISA 230, AUDIT DOCUMENTATION**

...

**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~~[7067](#)

...

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

...

**Application and Other Explanatory Material**

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

...

*Responsibility of the Auditor*

...

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

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<sup>16</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

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, e~~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.

...

#### **Audit Procedures When Non-Compliance Is Identified or Suspected**

*Indications of Non-Compliance with Laws and Regulations* (Ref: Para. 19)

A17. The auditor may become aware of information concerning an instance of non-compliance with laws and regulations other than as a result of performing the procedures in paragraphs 13–17 (e.g., when the auditor is alerted to non-compliance by a whistle-blower).

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

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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(c)(i) 25, ~~34(d)32(c), 55(a)54(a), 60(c)(i) 58(c)(i)~~ and 41–43 ~~67–68 64–65~~

• ...

...

## 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 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)

...

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>17</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>18</sup>

...

## ISA 300, PLANNING AN AUDIT OF FINANCIAL STATEMENTS

<sup>17</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraphs 23–29

<sup>18</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 42~~6764~~

...

## Application and Other Explanatory Material

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

- A5. 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>19</sup>

...

## 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>20</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

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<sup>19</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 46~~29~~, provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to material misstatement due to fraud.

<sup>20</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

susceptibility to misstatement due to management bias or other fraud risk factors<sup>21</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>22</sup>

...

## Requirements

...

### Identifying and Assessing the Risks of Material Misstatement (Ref: Para. A184–A185)

...

#### Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement, **whether due to fraud or error**. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, whether corroborative or contradictory to assertions made by management. (Ref: Para. A230–A232)

...

## Application and Other Explanatory Material

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

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>23</sup> In addition, the following ISAs provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

...

<sup>21</sup> ISA 240 (Revised), paragraphs ~~A24–A27~~~~A55–A57~~~~A23–A25~~

<sup>22</sup> ISA 240 (Revised), **paragraphs 27**~~40(b)~~~~39(b)~~ **and 41** and ISA 550, *Related Parties*, paragraph 18

<sup>23</sup> ISA 240 (Revised), paragraphs ~~42–27~~~~26–42~~~~41~~

*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>24</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));

...

*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

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<sup>24</sup> ISA 240 (Revised), paragraph 46~~29~~

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 24~~32~~38 of ISA 240 (Revised), which requires the auditor to evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present.

...

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>25</sup>

...

Control Activities (Ref: Para. 26)

...

Scalability (Ref: Para. 26)

...

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<sup>25</sup> ISA 240 (Revised), paragraph 49~~35(b)(i)~~33(b)(i)

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>26</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))

...

A159. ISA 240 (Revised)<sup>27</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)

...

*Risks of Material Misstatement at the Financial Statement Level* (Ref: Para. 28(a) and 30)

...

Identifying and Assessing Risks of Material Misstatement at the Financial Statement Level

A195. Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, account balance or disclosure level ~~(e.g., risk of management override of controls)~~. Rather, they represent circumstances that may pervasively increase the risks of material misstatement at the assertion level. The auditor's evaluation of whether risks identified relate pervasively to the financial statements supports the auditor's assessment of the risks of material misstatement at the financial statement level. In other cases, a number of assertions may also be identified as susceptible to the risk, and may therefore affect the auditor's risk identification and assessment of risks of material misstatement at the assertion level.

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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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<sup>26</sup> ISA 240 (Revised), paragraph A28 ~~A58~~[A111](#)

<sup>27</sup> ISA 240 (Revised), paragraphs 28 ~~40(b)~~[36, 39\(b\)](#) and A33 ~~A98~~[A101](#)

...

## Determining significant risks

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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>28</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>29</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:

<sup>28</sup> ISA 240 (Revised), paragraphs ~~26–28~~ 40–42 ~~39–41~~

<sup>29</sup> ISA 240 (Revised), paragraphs ~~A24–A27~~ A23–A25

- ...
- *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 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 3

(Ref: Para. 12(m), 21–26, A90–A181)

## Understanding the Entity’s System of Internal Control

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### Components of the Entity’s System of Internal Control

#### *Control Environment*

...

6. The control environment encompasses the following elements:

...

- (b) *When those charged with governance are separate from management, how those charged with governance demonstrate independence from management and exercise oversight of the entity’s system of internal control.* An entity’s control consciousness is influenced by those charged with governance. Considerations may include whether there are sufficient individuals who are independent from management and objective in their evaluations and decision-making; how those charged with governance identify and accept oversight responsibilities and whether those charged with governance retain oversight responsibility for management’s design, implementation and conduct of the entity’s system of internal control. The importance of the responsibilities of those charged with governance is recognized in codes of practice and other laws and regulations or guidance produced for the benefit of those charged with governance. Other responsibilities of those charged with governance include oversight of the design and effective operation of whistle-blower procedures the entity’s whistleblower program (or other program to report fraud).

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### Appendix 4

## 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>30</sup> if the internal audit function provides information to the auditor regarding any ~~actual, fraud or suspected or alleged fraud, including allegations of 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 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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#### Evaluating the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 25–27)

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<sup>30</sup> ISA 240 (Revised), paragraph 49~~35(b)~~34(b).

A62. An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

...

In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks of material misstatement, **whether due to fraud or error**, and the effect on the significant classes of transactions, account balances, or disclosures and their relevant assertions. ISA 315 (Revised 2019) contains further guidance on revising the auditor's risk assessment.<sup>31</sup>

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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-evaluate~~ 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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<sup>31</sup> ISA 315 (Revised 2019), paragraph 37

Examples of misstatements arising from fraud are provided in ISA 240 (Revised).<sup>32</sup>

...

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

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),<sup>33</sup> 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.

...

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

...

A22. ISA 240 (Revised)<sup>34</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>35</sup>

...

## ISA 500, AUDIT EVIDENCE

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### Application and Other Explanatory Material

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#### Information to Be Used as Audit Evidence

<sup>32</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A1–A7 ~~A2~~A3–A6

<sup>33</sup> ISA 240 (Revised), paragraphs 54–57

<sup>34</sup> ISA 240 (Revised), paragraph 36 ~~57~~56

<sup>35</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 15

Relevance and Reliability (Ref: Para. 7)

...

Reliability

...

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>36</sup>

...

## ISA 505, EXTERNAL CONFIRMATIONS

### Introduction

...

#### External Confirmation Procedures to Obtain Audit Evidence

...

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

...

- 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>37</sup>

...

### Requirements

...

#### 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 risks 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)

<sup>36</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 44 ~~2022~~

<sup>37</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs ~~A38~~ ~~A117-~~ A122A127-A132

...

## Results of the External Confirmation Procedures

### *Reliability of Responses to Confirmation Requests*

...

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 risks of material misstatement due to~~of~~ fraud, and on the related nature, timing and extent of other audit procedures. (Ref: Para. A17)

...

## Application and Other Explanatory Material

### External Confirmation Procedures

...

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

...

- A4. Factors to consider when designing confirmation requests include:
- The assertions being addressed.
  - Specific identified risks of material misstatement, including risks 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).

...

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

...

#### *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>38</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>39</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>40</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>41</sup> For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).<sup>42</sup>

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

...

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>43</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>44</sup>

...

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<sup>38</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 37

<sup>39</sup> ISA 240 (Revised), paragraph 25~~3~~238

<sup>40</sup> ISA 500, paragraph A35

<sup>41</sup> ISA 315 (Revised 2019), paragraph 37

<sup>42</sup> ISA 240 (Revised), paragraph 25~~3~~238

<sup>43</sup> ISA 315 (Revised 2019), paragraph 37

<sup>44</sup> ISA 240 (Revised), paragraph 25~~3~~238

*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>45</sup>~~ISA 240~~ to ~~evaluate~~ ~~determine~~ ~~evaluate~~ whether such misstatement is indicative of fraud.<sup>46</sup> Exceptions may provide a guide to the quality of responses from similar confirming parties or for similar accounts. Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.

...

## **ISA 530 (REVISED), AUDIT SAMPLING**

...

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

...

#### **Sample Design, Size, and Selection of Items for Testing**

*Sample Design* (Ref: Para. 6)

...

A6. The auditor's consideration of the purpose of the audit procedure, as required by paragraph 6, includes a clear understanding of what constitutes a deviation or misstatement so that all, and only those, conditions that are relevant to the purpose of the audit procedure are included in the evaluation of deviations or projection of misstatements. For example, in a test of details relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confirmation date but received shortly after that date by the client, are not considered a misstatement. Also, a misposting between customer accounts does not affect the total accounts receivable balance. Therefore, it may not be appropriate to consider this a misstatement in evaluating the sample results of this particular audit procedure, even though it may have an important effect on other areas of the audit, such as the assessment of the risks of material misstatement due to fraud or the adequacy of the allowance for doubtful accounts.

...

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

...

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

...

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

---

<sup>45</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5A

<sup>46</sup> ISA 240, paragraph 36

...

*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>47</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, even if they are individually reasonable, are indicate indicators a of possible management bias that may represent a risk of material misstatement due to fraud. 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,<sup>48</sup> 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 how ISA 315 (Revised 2019),<sup>49</sup> ISA 330,<sup>50</sup> and ISA 240 (Revised)<sup>51</sup> are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

...

#### Responsibilities of the Auditor

...

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<sup>47</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph ~~33(b)(ii)~~28

<sup>48</sup> ISA 240 (Revised), paragraphs ~~33(b)~~ 51-5250-51

<sup>49</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>50</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>51</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

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>52</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>53</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>54</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)

...

### 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:

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<sup>52</sup> ISA 240 (Revised), paragraph ~~25~~23~~8~~

<sup>53</sup> ISA 315 (Revised 2019), paragraph 13; ISA 240 (Revised), paragraph ~~47~~26

<sup>54</sup> ISA 315 (Revised 2019), paragraph 17; ISA 240 (Revised), paragraph ~~46~~29

- (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>55</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)

...

A17. In meeting the ISA 315 (Revised 2019) requirement to obtain an understanding of the control environment, the auditor may consider features of the control environment relevant to mitigating the risks of material misstatement associated with related party relationships and transactions, such as:

- ...
- \_\_\_\_\_ The existence of ~~whistle-blowing policies and procedures~~ a whistleblower program (or other program to report fraud), where applicable.

...

A19. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively.<sup>56</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 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:

<sup>55</sup> ISA 240 (Revised), paragraph 33(e) 5352

<sup>56</sup> ISA 240 (Revised), paragraphs 324240 and A4A5

- 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>57</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>58</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 understanding of the business relationships that such a related party may have established directly

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<sup>57</sup> ISA 240 (Revised), Appendix 1

<sup>58</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.

or indirectly with the entity and to determine the need for further appropriate substantive audit procedures:

- ...
- Review of employee whistle-blowing reports where these are retained.

...

#### *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 570 (REVISED 2024), GOING CONCERN**

...

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

...

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

##### *Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 11)

...

A8. In certain circumstances, the auditor may identify fraud risk factors arising from events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that are relevant to the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 240 (Revised).<sup>59</sup>

...

##### *Events or Conditions not Previously Identified or Disclosed by Management* (Ref: Para. 14)

...

A31. When management has intentionally failed to identify or disclose to the auditor events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise

---

<sup>59</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 2427

doubts about their integrity and honesty, such as when the auditor suspects an intention to mislead. 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>60</sup>

...

*Management Unwilling to Extend its Assessment (Ref: Para. 22–23)*

A57. If the auditor is unable to obtain sufficient appropriate audit evidence that supports the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements, as a result of management’s decision not to extend its assessment, the auditor may conclude that it is appropriate to:

- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA 315 (Revised 2019).<sup>61</sup> For example, if management’s decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).
- Consider management’s unwillingness to extend its assessment as a limitation on the audit evidence the auditor has obtained. In accordance with ISA 705 (Revised), when the possible effects on the financial statements of the inability to obtain sufficient appropriate audit evidence are pervasive, the auditor disclaims an opinion.

...

Indicators of Possible Management Bias (Ref: Para. 30(a))

...

A71. Indicators of possible management bias may also be fraud risk factors and may cause the auditor to reassess whether the auditor’s risk assessment, in particular the assessment of the risks of material misstatement due to fraud, and related responses remain appropriate.<sup>62</sup> When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud.

...

## ISA 580, WRITTEN REPRESENTATIONS

...

### Application and Other Explanatory Material

...

## Appendix 1

(Ref: Para. 2)

<sup>60</sup> ISA 240 (Revised), paragraphs ~~26–39–41~~

<sup>61</sup> ISA 315 (Revised 2019), paragraph 37

<sup>62</sup> ISA 240 (Revised), paragraph ~~2538~~

## 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 40~~65~~62

...

## 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 2024)<sup>63</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>64</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 any 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

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<sup>63</sup> [ISA 570 \(Revised 2024\), Going Concern](#)

<sup>64</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.

- Others where the fraud could have **an 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, **including allegations of 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).]

...

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

...

### Requirements

...

#### **Fraud or Suspected Fraud**

44A. In applying ISA 240 (Revised),<sup>65</sup> the group auditor shall take responsibility for obtaining an understanding of identified fraud or suspected fraud, **including fraud or suspected fraud identified by the component auditor, in order to determine the effect on the group audit engagement.**

#### **Evaluating the Component Auditor’s Communications and the Adequacy of Their Work**

45. The group auditor shall request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A144)

...

- (h) Fraud or suspected fraud ~~identified by the component auditor~~ involving:
  - (i) ~~Component management,~~
  - (ii) ~~Employees who have significant roles in the group’s system of internal control at the component; or~~
  - (iii) ~~Others, except for matters that are clearly inconsequential where the fraud resulted in a material misstatement of~~ **to the component financial information;**

<sup>65</sup> [ISA 240 \(Revised\), paragraph 54](#)

...

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

### Communication with Group Management

...

55. If fraud or suspected fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 45(h)), or information indicates that a fraud or suspected fraud may exist, the group auditor shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A160)

...

### Communication with Those Charged with Governance of the Group

57. The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised) and other ISAs: (Ref: Para. A163)
- (a) An overview of the work to be performed at the components of the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A164)
  - (b) Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.
  - (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
  - (d) Fraud or suspected fraud involving:
    - (i) Ggroup management or, component management;
    - (ii) eEmployees who have significant roles in the group's system of internal control; or
    - (iii) eOthers, except for matters that are clearly inconsequential—when the fraud resulted in a material misstatement of the group financial statements.

...

## Documentation

59. In accordance with ISA 230,<sup>66</sup> the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying ISA 230,<sup>67</sup> the group auditor shall include in the audit documentation: (Ref: Para. A166–A169, A179–A182)

<sup>66</sup> ISA 230, paragraph 8

<sup>67</sup> ISA 230, paragraphs 1–3, 9–11, A6–A7 and Appendix

...

- (g) Matters related to communications with component auditors, including:
- (i) Matters, if any, related to fraud or suspected fraud, related parties or going concern communicated in accordance with paragraph 32.
  - (ii) Matters relevant to the group auditor's conclusion with regard to the group audit, in accordance with paragraph 45, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.

...

## 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>68</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>69</sup> requires the engagement

<sup>68</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, Appendix 1

<sup>69</sup> ISA 240 (Revised), paragraph 46~~29~~

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.

...

- Discuss fraud or suspected fraud that has been identified, or information that indicates existence of a fraud.

...

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

...

#### *Fraud*

A113. In applying ISA 240 (Revised),<sup>70</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.

...

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<sup>70</sup> ISA 240 (Revised), paragraphs 26-31, 33-34, 36-37, 39-40, 42-43, 45-46, 48-49, 51-52, 54-55, 57-58, 60-61, 63-64, 66-67, 69-70, 72-73, 75-76, 78-79, 81-82, 84-85, 87-88, 90-91, 93-94, 96-97, 99-100, 102-103, 105-106, 108-109, 111-112, 114-115, 117-118, 120-121, 123-124, 126-127, 129-130, 132-133, 135-136, 138-139, 141-142, 144-145, 147-148, 150-151, 153-154, 156-157, 159-160, 162-163, 165-166, 168-169, 171-172, 174-175, 177-178, 180-181, 183-184, 186-187, 189-190, 192-193, 195-196, 198-199, 201-202, 204-205, 207-208, 210-211, 213-214, 216-217, 219-220, 222-223, 225-226, 228-229, 231-232, 234-235, 237-238, 240-241, 243-244, 246-247, 249-250, 252-253, 255-256, 258-259, 261-262, 264-265, 267-268, 270-271, 273-274, 276-277, 279-280, 282-283, 285-286, 288-289, 291-292, 294-295, 297-298, 300-301, 303-304, 306-307, 309-310, 312-313, 315-316, 318-319, 321-322, 324-325, 327-328, 330-331, 333-334, 336-337, 339-340, 342-343, 345-346, 348-349, 351-352, 354-355, 357-358, 360-361, 363-364, 366-367, 369-370, 372-373, 375-376, 378-379, 381-382, 384-385, 387-388, 390-391, 393-394, 396-397, 399-400, 402-403, 405-406, 408-409, 411-412, 414-415, 417-418, 420-421, 423-424, 426-427, 429-430, 432-433, 435-436, 438-439, 441-442, 444-445, 447-448, 450-451, 453-454, 456-457, 459-460, 462-463, 465-466, 468-469, 471-472, 474-475, 477-478, 480-481, 483-484, 486-487, 489-490, 492-493, 495-496, 498-499, 501-502, 504-505, 507-508, 510-511, 513-514, 516-517, 519-520, 522-523, 525-526, 528-529, 531-532, 534-535, 537-538, 540-541, 543-544, 546-547, 549-550, 552-553, 555-556, 558-559, 561-562, 564-565, 567-568, 570-571, 573-574, 576-577, 579-580, 582-583, 585-586, 588-589, 591-592, 594-595, 597-598, 600-601, 603-604, 606-607, 609-610, 612-613, 615-616, 618-619, 621-622, 624-625, 627-628, 630-631, 633-634, 636-637, 639-640, 642-643, 645-646, 648-649, 651-652, 654-655, 657-658, 660-661, 663-664, 666-667, 669-670, 672-673, 675-676, 678-679, 681-682, 684-685, 687-688, 690-691, 693-694, 696-697, 699-700, 702-703, 705-706, 708-709, 711-712, 714-715, 717-718, 720-721, 723-724, 726-727, 729-730, 732-733, 735-736, 738-739, 741-742, 744-745, 747-748, 750-751, 753-754, 756-757, 759-760, 762-763, 765-766, 768-769, 771-772, 774-775, 777-778, 780-781, 783-784, 786-787, 789-790, 792-793, 795-796, 798-799, 801-802, 804-805, 807-808, 810-811, 813-814, 816-817, 819-820, 822-823, 825-826, 828-829, 831-832, 834-835, 837-838, 840-841, 843-844, 846-847, 849-850, 852-853, 855-856, 858-859, 861-862, 864-865, 867-868, 870-871, 873-874, 876-877, 879-880, 882-883, 885-886, 888-889, 891-892, 894-895, 897-898, 900-901, 903-904, 906-907, 909-910, 912-913, 915-916, 918-919, 921-922, 924-925, 927-928, 930-931, 933-934, 936-937, 939-940, 942-943, 945-946, 948-949, 951-952, 954-955, 957-958, 960-961, 963-964, 966-967, 969-970, 972-973, 975-976, 978-979, 981-982, 984-985, 987-988, 990-991, 993-994, 996-997, 999-1000.

## 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>71</sup>

...

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

*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 ~~fraud~~ fraud;
- Fraud Identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial statements; or
- ...

...

## 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>72</sup> contains requirements and guidance on the communication of fraud or suspected fraud to management and ~~when management may be involved in the fraud,~~ to those charged with governance.

...

<sup>71</sup> ISA 240 (Revised), paragraph ~~30(e)~~ 4443

<sup>72</sup> ISA 240 (Revised), paragraphs ~~41–43~~ 66–68 ~~63–65~~

## 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.

...

### 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>73</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>74</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, fraud or suspected or alleged fraud, including allegations of 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>75</sup>

...

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<sup>73</sup> ISA 200, paragraphs 15 and A21

<sup>74</sup> ISA 315 (Revised 2019), Appendix 4

<sup>75</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*

## 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>76</sup>
- Determination of unannounced audit procedures as addressed in ISA 240 (Revised).

...

## 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. A51)

- (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 that the auditor identifies during the audit, including any:

- (i) ~~significant~~ Significant deficiencies in internal control ~~that the auditor identifies during the audit~~;

<sup>76</sup> ISA 315 (Revised 2019), paragraph 14(a)

- (ii) Identified fraud or suspected fraud;<sup>77</sup> and
  - (iii) Other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance;<sup>78</sup>
- (b) ...
- (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~~ ~~these~~ 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. A54)

...

## 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>79</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

<sup>77</sup> [ISA 240 \(Revised\), paragraph 64](#)

<sup>78</sup> [ISA 240 \(Revised\), paragraph 65](#)

<sup>79</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.

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 that we identify during our audit, including any:

- ~~Significant deficiencies in internal control~~ that we identify during our audit;
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our 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 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 these~~ 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>80</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:

- 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 that we identify during our audit, including any:

- ~~Significant deficiencies in internal control~~ that we identify during our audit;
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our 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.

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<sup>80</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.

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~~ ~~these 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 ~~that we identify during our audit~~, including any:

- ~~Significant deficiencies in internal control that we identify during our audit;~~
- Identified fraud or suspected fraud; and

- Other matters related to fraud that are, in our 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>81</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 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)

...

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<sup>81</sup> Unless specifically referring to the title of the section, reference is made to the Key Audit Matters section throughout this ISA.

A8A. ISA 240 (Revised)<sup>82</sup> includes requirements for ~~the auditor to determine which matters related to fraud, from those communicated with those charged with governance, are and communicating~~ key audit matters related to fraud. 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>83</sup> notes that matters related to fraud are often matters that require significant auditor attention and that, given the interest of users of the financial statements, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph ~~64-59~~ of ISA 240 (Revised), would ordinarily be of most significance in the audit of the financial statements of 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>84</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 risks of material misstatement due to fraud as significant risks.<sup>85</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>86</sup> The auditor may determine these matters to be key audit matters related to fraud because risks of material misstatement due to fraud are often matters that both require significant auditor attention and are of most significance in the audit. However, this may not be the case for all these matters. The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor

<sup>82</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs ~~64-64-59-61~~

<sup>83</sup> ISA 240 (Revised), paragraphs ~~A165-A177 and A179A183~~

<sup>84</sup> ISA 315 (Revised 2019), paragraph 12(l)

<sup>85</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs ~~27-2840-4439(b) and 41~~

<sup>86</sup> ISA 240 (Revised), paragraphs ~~32-4239(b) and 40~~

~~attention~~ Depending on their nature, these risks may not require significant auditor attention, and, therefore, these risks 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>87</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.
- (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**

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<sup>87</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.

[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>88</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.

...

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

...

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<sup>88</sup> ~~ISA 240 (Revised), paragraph A177~~

## Application and Other Explanatory Material

...

### Appendix

(Ref: Para. A13 and A21)

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

**Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a 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 that we identify during our audit, including any:

- Significant deficiencies in internal control that we identify during our audit;
- Identified fraud or suspected fraud; and

- Other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance

...

**Illustration 2: An auditor’s report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a 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 International Standards on Auditing (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 that we identify during our audit, including any:

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

...

**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 that we identify during our audit, including any:

- ~~Significant deficiencies in internal control that we identify during our audit;~~
- Identified fraud or suspected fraud; and
- 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 SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT**

...

### **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>89</sup> ISA 550<sup>90</sup> and ISA 570 (Revised 2024) 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.

...

## **Appendix 2**

(Ref: Para. A17)

### **Illustrations of Independent Auditor's Reports on a Single Financial Statement and on a Specific Element of a Financial Statement**

...

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<sup>89</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>90</sup> ISA 550, *Related Parties*

**Illustration 1: An auditor’s report on a single financial statement of an entity other than a listed entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation 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 statement as a whole is 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 this financial statement.

...

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 that we identify during our audit, including any:

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

...

**Illustration 2: An auditor’s report on a single financial statement of an entity other than a listed entity prepared in accordance with a special purpose 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 statement as a whole is 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 this financial statement.

...

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 that we identify during our audit, including any:

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

...

**Illustration 3: An auditor’s report on a specific element of a financial statement of a listed entity prepared in accordance with a special purpose 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 schedule is 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 this schedule.

...

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 that we identify during our audit, including any:

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

...

## **INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (ISRE) 2400 (REVISED), ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS**

...

### **Requirements**

...

#### **Performing the Engagement**

...

##### *Designing and Performing Procedures*

...

48. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A82–A86)

...

- (d) The existence of any ~~actual, suspected or alleged:~~fraud or suspected fraud, including allegations of fraud,
  - (i) ~~Fraud or illegal acts affecting the entity;~~ and

- (ii) ~~identified or suspected~~ non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations;

...

### Written Representations

...

62. The practitioner shall also request management's written representations that management has disclosed to the practitioner: (Ref: Para. A105)

...

- (d) ~~Significant facts relating to any~~ ~~its knowledge of any~~ -frauds or suspected frauds known to management that may have affected the entity;

...

## 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~~ fraud is relevant to the engagement.

...