



Subject:	Agenda for the 162nd meeting of the AUASB
Venue:	APESB Offices, Level 11, 99 William Street, Melbourne Victoria
Time:	Wednesday, 9 July 2025, 09:30 am – 2:30 pm

Time	No.	Item	Responsibility
PRIVATE SESSION [Board members and staff only]			
9:30 am	1	Board only matters *	Doug Niven
PUBLIC SESSION [Open to members of the public for virtual attendance]			
9:40 am	2	Welcome and Chair Update <ul style="list-style-type: none"> • Declaration of interests 	Doug Niven
9:50 am	3	NZAuASB update *	Michael Bradbury
10:00 am	4	Environmental scan – December 2024 to June 2025	Doug Niven / Anne Waters
10:20 am	5	Sustainability assurance implementation	Doug Niven / Anne Waters
10.30 am	6	Amendments to ASA 102 and ASSA 5000 for APES 110 revisions <ul style="list-style-type: none"> • Amending standards • Explanatory statements 	Anne Waters / See Wen Ewe
11:00 am	<i>Break</i>		
11:15 am	7	Possible amendments to ASSA 5010 on sustainability assurance phasing <ul style="list-style-type: none"> • Directors' declaration • Draft legislation 	Anne Waters / See Wen Ewe
12.00 pm	8	Submission on IAASB's proposed amendments on <i>Using the Work of External Experts</i> <ul style="list-style-type: none"> • Draft submission 	See Wen Ewe
12:30 pm	<i>Lunch</i>		
1.30 pm	9	Revised ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> <ul style="list-style-type: none"> • Draft standard • Conforming amendments • Explanatory statement • Basis for conclusions 	Rene Herman / See Wen Ewe
2.25 pm	10	Close *	Doug Niven

** These items are verbal updates only and there are no associated board papers.*

The timing of Agenda items is subject to change on the day of the meeting.



AUASB DECLARATION OF INTERESTS

As at 2 July 2025

AUASB Meeting 162
Agenda Paper 2.0

AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Mr Doug Niven (Chair)	<ul style="list-style-type: none">Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Chair of the Auditing and Assurance Standards Board, AUASB Statutory Authority and Office of the AUASBMember, Australia's Financial Reporting CouncilMember, New Zealand Auditing and Assurance Standards Board	<ul style="list-style-type: none">Member, IAASB/IESBA Stakeholder Advisory CouncilMember, IAASB Jurisdictional Standard Setters Group
Ms Julie Crisp (Deputy Chair)	<ul style="list-style-type: none">Registered Company AuditorFellow, Chartered Accountants Australia and New ZealandFellow, CPA AustraliaFellow, Governance Institute of AustraliaFellow, Institute of Public Administration AustraliaGraduate, Australian Institute of Company DirectorsCertified Internal Auditor, Certified Government Audit Professional, Certification in Risk Management Assurance – Professional Member, Institute of Internal AuditorsMember, Association of Certified Fraud Examiners	<ul style="list-style-type: none">Non-Executive Director – CPA AustraliaMember – Performance Statements Audit Expert Advisory Panel, Australian National Audit OfficeBoard Director and Chair of the Auditing & Risk Committee of Aboriginal Investment NT, a Commonwealth statutory entity regulated by the ACNCFormer Northern Territory Auditor-General (concluded 12 September 2024)	<ul style="list-style-type: none">Director and Shareholder, Family Trust CompanyDirector and Shareholder, Asterism Assurance and Advisory Pty Ltd



AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Ms Marilyn Gwan	<ul style="list-style-type: none">Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, Grant Thornton Australia	<ul style="list-style-type: none">Member of Australian Institute of Company Directors Reporting CommitteeMember of the Australian Accounting and Assurance Public Policy Committee – Audit Quality Working GroupMember of the Australian Accounting and Assurance Public Policy Committee – ESG Working GroupDirector and Shareholder, Family Trust Company(s)Trustee – personal family trusts
Mr Klynton Hankin	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, PricewaterhouseCoopers	<ul style="list-style-type: none">Member, Finance, Risk and Audit Committee - Cancer Council Australia
Dr Noel Harding	<ul style="list-style-type: none">Member, CPA Australia	<ul style="list-style-type: none">Professor and Head of School of Accounting, Auditing and Taxation, UNSW Sydney	<ul style="list-style-type: none">Editor, International Journal of AuditingDeputy Editor, Accounting and FinanceCo-chair of AFAANZ Auditing and Assurance Standards Committee
Mr Terence L Jeyaretnam	<ul style="list-style-type: none">Degree in Environmental Engineering (UWA)Chartered Professional EngineerFellow and Engineering Executive of the Institute of Engineers, Australia	<ul style="list-style-type: none">Clean Energy Regulator Accredited Category 2 AuditorAssociate Professor of Practice at Monash University's Department of Accounting, Faculty of Business and EconomicsFormerly APAC Leader and Partner, Climate Change and Sustainability Services, Ernst & Young in Melbourne	<ul style="list-style-type: none">Chair of the G100 Sustainability Working GroupBoard member, Australian Conservation FoundationBoard member, Amnesty International AustraliaChair, Global Citizen, Australia
Ms Joanne Lonergan	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, Ernst & Young	<ul style="list-style-type: none">Director & Shareholder, Family Trust Company



AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Mr Andrew Porter	<ul style="list-style-type: none">• Fellow, Institute of Chartered Accountants in England and Wales• Member, Australian Institute of Company Directors• Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">• Chief Financial Officer, Australian Foundation Investment Company Limited	<ul style="list-style-type: none">• CFO for Djerriwarrh Investments, Mirrabooka Investments and AMCIL Limited• Director of Australian Investment Company Services Ltd.• Director of a Family Trust Company• Director of the Melbourne Anglican Foundation and trustee of related entities
Ms Jennifer Travers	<ul style="list-style-type: none">• Member, Chartered Accountants in Australia and New Zealand	<ul style="list-style-type: none">• Partner, KPMG	<ul style="list-style-type: none">• Chair of the Australian Accounting and Assurance Public Policy Committee – Audit Quality Working Group• Member of the Australian Accounting and Assurance Public Policy Committee – ESG Working Group• Chair of the Trans-Tasman Audit and Advisory Committee (CA ANZ)• Director and Shareholder, Family Trust Company(s)• Trustee – personal family trusts
Mr Jason Thorne	<ul style="list-style-type: none">• Fellow, Institute of Chartered Accountants in England and Wales• Member, Chartered Accountants in Australia and New Zealand• Registered Company Auditor	<ul style="list-style-type: none">• Partner, Deloitte Touche Tohmatsu	<ul style="list-style-type: none">• Director and Shareholder, family trust company
Mr Chi Mun Woo	<ul style="list-style-type: none">• Member, Chartered Accountants Australia & New Zealand• Member, Institute of Chartered Accountants in England and Wales	<ul style="list-style-type: none">• Partner, Climate and Sustainability practice, Deloitte	-

AUASB Agenda Paper

Title:	Environmental Scan – December 2024 to June 2025	Date:	9 July 2025
Office of the AUASB:	Sheryl Huang	Agenda Item:	4.0

Objective of this agenda paper

The objective of the environmental scan is to inform the AUASB on key developments relevant to auditing and assurance, reporting, and related regulation in Australia and globally.

Developments by jurisdiction (excluding sustainability reporting and assurance)

Australia

Australian Accounting Standards Board (AASB)

- launched the **AASB S2 Knowledge Hub** to assist in preparing climate-related financial disclosures using AASB S2 *Climate-related disclosures*.
- issued exposure draft of *Amendments to Greenhouse Gas Emissions Disclosures: Proposed amendments to AASB S2 (ED SR2)* to provide relief to ease the application of requirements related to the disclosure of greenhouse gas (GHG) emissions. AASB ED SR2 incorporates ISSB ED/2025/1 to invite comments on the proposed amendments to IFRS S2. Comments closed on 2 June 2025.

CPA Australia

- launched new **sustainability micro-credentials** to support accounting professionals to meet the growing demand for sustainability expertise, with mandatory climate-related financial disclosures for large organisations coming into effect from 1 January 2025.
- launched **Global ESG webinars series** to inform and upskill accountants on the critical and evolving ESG landscape and how it applies to their businesses.
- CPA's **submission** to the Australian National Audit Office (ANAO) urges actions from ASIC to make audit regulation more supportive and sustainable.

Chartered Accountants Australia and New Zealand (CA ANZ)

- CA ANZ's **submission** to Treasury's consultation on the design of the proposed body that combines AASB, AUASB, and FRC voiced concerns which arise from: (1) not having practitioners in the standards-setting bodies; and (2) lack of legislative framework for the new body.
- announced the inclusion of 10 accounting, audit and finance related occupations on Australia's Core Skills Occupation List (CSOL), which helps to fill the shortage of accounting, audit and finance occupations, evidenced by their surveys on skills shortages and recruitment challenges.
- launched a new **Certificate in AI Fluency** and a program incorporating four micro courses and two expert-led workshops to introduces practitioners to the fundamental skills and ethical principles needed to work effectively with GenAI.

Australian Professional and Ethical Standards Board (APESB)

- issued exposure drafts with **proposed amendments to APES 110 Proposed Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (ED 01/25)**; and **Using the Work of an External Expert (ED 02/25)**. The proposed amendments were approved in June 2025 and are effective from 1 January 2026 with certain transitional relief available.

The Australian Institute of Company Directors (AICD)

- lodged a **submission** on the Treasury consultation on the design of the proposed body that combines AASB, AUASB, and the FRC supportive of the structure of the new body but recommends a review of the legislation post-implementation (i.e. after three years of operation).
- lodged a **submission** on proposed amendments to the *Corporations Act 2001* in the *Treasury Laws Amendment Bill 2025: Miscellaneous and technical amendments (Autumn 2025)* on aspects of the sustainability reporting provisions.
- released the ***Climate Change – Science Snapshot 2025: An overview for Australian Directors***, to provide directors with the latest climate science, supporting informed boardroom discussion on scenario analysis, risk management, and transition planning.
- published **Cyber Security Governance Principles – Version 2**, which covers emerging issues such as digital supply chain risks, data governance and effective cyber incident response and recovery, to help boards strengthen cyber resilience, improve risk controls, and oversee supplier relationships effectively.

Australian Securities & Investments Commission (ASIC)

- announced its audit surveillance program will focus on auditor independence and conflicts of interest obligations for the period 1 July 2024 to 30 June 2025. ASIC intends to publish the outcomes of this surveillance later this year.
- after consultation issued **RG 280 Sustainability Reporting** on 31 March 2025.
- released **supporting materials** to prepare small business for the upcoming sustainability reporting requirements.
- announced its **financial reporting and audit focus areas for the 2025-26 financial year**. ASIC will review 31 December 2025 sustainability reports and will share observations with the market to assist preparers.

International

Association of Chartered Certified Accountants (ACCA)

- released a **report series – AI monitor**: Exploring trends, innovations and AI challenges.
- called for the simplification of European Union sustainable financial reporting rules and encouraged the European Commission (EC) to consider a transition-focussed approach creating more flexibility and phasing in implementation.

International Auditing and Assurance Standards Board (IAASB)

- together with the International Ethics Standards Board for Accountants (IESBA), issued an **integrated suite of guidance and support materials** for the implementation of standards for sustainability assurance (i.e., IAASB's ISSA 5000) and ethical behaviours (i.e., IESBA's IESSA), including:
 - **ISSA 5000 Implementation Guide**: This guide covers the fundamental concepts in ISSA 5000 and the conduct of the assurance engagement from acceptance and continuance to reporting.
 - **ISSA 5000 Fact Sheet**: This fact sheet provides an overview on who the standard applies to, what it covers, and what the standard provides to practitioners, stakeholders, and those who rely on reported sustainability disclosures for decision making.
 - **ISSA 5000 Frequently Asked Questions (FAQs)**
 - **Joint FAQs** from IAASB and IESBA. These FAQs address the following areas:
 - Identifying relevant ethical requirements
 - Determining group and value chain components
 - Using the work of another practitioner
 - Addressing IESSA disclosure requirements in the assurance report
- issued workplan for 2025, which reiterates its **strategy and work plan for 2024-2027**. The 2025 workplan includes:
 - Give the market time and support to ensure high-quality implementation. The IAASB will provide more support on the implementation of the standards issued in recent years, including ISA 315 on risk the quality management standards, ISA 600 on group audits, the ISA for LCEs, ISSA 5000, and ISA 570 on going concern.
 - Increase their focus on technology to enhance audit and assurance quality.
- published new **FAQs** to help stakeholders implement the revised ISA 570 *Going Concern*.

International Ethics Standards Board for Accountants (IESBA)

- issued the **International Ethics Standards for Sustainability Assurance** effective from 15 December 2026, with early adoption permitted and encouraged.
- issued **Revisions to the Code Addressing Using the Work of an External Expert**, effective from 15 December 2026, with early adoption permitted and encouraged.
- launched **webinar series** to help stakeholders understand and use the new standards.
- launched **project** on accounting firm culture and governance.
- issued a Consultation Paper seeking feedback on whether revisions to the Code are necessary to address the independence of auditors when they carry out audits of Collective Investment Vehicles (CIVs) and Pension Funds. Comments close on 30 June 2025.
- Held a roundtable in Melbourne on the Firm Culture and Governance project.
- issued **joint FAQs with IAASB** to enhance understanding and support global adoption and implementation of sustainability assurance and ethics standards.
- published **questions and answers (Q&A)** covering:
 - The scope of the ethics and independence standards in IESSA
 - Independence considerations for group sustainability assurance engagements, including value chain components
 - Independence considerations for using the work of another practitioner
 - Providing non-assurance services to a sustainability assurance client
 - Effective date of the IESSA
- released a **Q&A publication** to support the adoption and implementation of the IESBA Tax Planning and Related Services Standards.

International Accounting Standards Board (IASB)

- hosted a **joint board meeting** with the International Sustainability Standards Board (ISSB) to consider stakeholders' feedback on the **IASB's Exposure Draft Climate-related and Other Uncertainties in the Financial Statements**.
- began its agenda consultation process on its work plan from 2027. Formal consultation document is expected in the Quarter 4 of 2025.
- published a **Request for Information** as part of its Post-implementation Review of IFRS 16 *Leases*. Comments close on 15 October 2025.
- finalised seven illustrative examples to improve the reporting of uncertainties in financial statements. These examples use climate-related scenarios to illustrate principles that apply broadly to all types of uncertainties. The IASB plans to publish a final document in October 2025.
- expects to issue the revised IFRS Practice Statement 1 *Management Commentary* on 23 June 2025.

The International Federation of Accountants (IFAC)

- released guidance **Building Trust in Sustainability Reporting and Preparing for Assurance: Governance and Controls for Sustainability Information**, in partnership with the We Mean Business Coalition (WMBC) and Global Accounting Alliance (GAA). This guide outlines how to establish effective governance arrangements and controls to build confidence in sustainability information.
- released **revisions to the International Education Standards (IES)** to update the global baseline for professional accountancy education, equipping future accountants to apply sustainability-related reporting and assurance standards effectively.
- hosted a multi-stakeholder Summit together with the IAASB and IESBA in Paris on 14 April 2025. The Summit highlighted two priority areas for engagement among the standard-setters, oversight bodies, and IFAC:
 - IESBA, IAASB and IFAC leadership working together to progress the adoption of the IESBA's and the IAASB's international standards globally and support their consistent implementation.
 - The importance of continued improvement in the transparency and effectiveness of the due process for standard setting.
- published a report from the **joint study** with AICPA & CIMA about the state of sustainability disclosure and assurance developments for the period of 2019-2023.

- launched an **online tool** in collaboration with the Edinburgh Group (EG), to help small- and medium-sized enterprises (SMEs) maximize the benefits of incorporating sustainability into their strategy and business operations.

IFRS Foundation

- developing guidance for companies disclosing climate transition plans. Guidance document is expected in Quarter 2 of 2025.
- released a **Progress Report on Corporate Climate-related Disclosures**, which records the climate-related disclosure progress. Following that, the IFRS Foundation reported the findings from the third IFRS Foundation **survey** on ISSB Standards for national standard-setters and regulators, which tracks the progress in the adoption or other use of ISSB Standards around the world. Key findings include:
 - All 49 jurisdictions that responded to the survey have introduced (or plan to introduce) sustainability-related disclosure requirements into their regulatory frameworks. Nearly all of these jurisdictions (47) have already adopted or plan to adopt or otherwise use ISSB Standards. Almost two thirds of responding jurisdictions (32) have either finalised or are now finalising their regulatory process.
 - More than half of jurisdictions (30) said their jurisdictional approach for adopting or otherwise using ISSB Standards will become effective by the end of 2029. Most jurisdictions (70%) will phase in requirements, starting with initial application by some publicly accountable companies, followed by staged application dates for other companies.
 - Many jurisdictions (39%) plan to require assurance of sustainability-related disclosures. Most of these jurisdictions (77%) plan to mandate a limited assurance scope.
- published a guide **Sustainability-related risks and opportunities and the disclosure of material information**, to help companies with the fundamental task of identifying and disclosing material information about sustainability-related risks and opportunities that could reasonably be expected to affect their cash flows, their access to finance or cost of capital over the short, medium or long term.
- launched **webcast series** to illustrate the connectivity between the IFRS Accounting Standards and IFRS Sustainability Disclosure Standards to connected information.
- launched **webcast series – Proportionality mechanisms** in IFRS Sustainability Disclosure Standards to help companies with different levels of capabilities and preparedness apply IFRS S1 and IFRS S2.
- released **episode 8, the future of integrated reporting and integrated thinking**, of the webcast series – Perspectives on sustainability disclosure to discuss the principles and business case of the integrated reporting framework, particularly how it enables connected information.
- the ISSB published **Exposure Draft** proposing targeted amendments to IFRS S2 to ease application for companies. These reliefs would support preparers in applying IFRS S2 by reducing the risk of potential duplication of reporting and the related costs associated with applying the Standards. Comments closed on 27 June 2025.
- published educational material about greenhouse gas emissions disclosure requirements in IFRS S2 covering:
 - the context and reasoning underlying the GHG emissions-related requirements;
 - the use of the materials of the GHG Protocol in IFRS S2 requirements; and
 - specific aspects of the GHG emissions-related requirements.
- published an updated version of the **educational material** to support the consistent application of IFRS Accounting Standards related to the revised ISA 570 *Going Concern*.
- published **jurisdictional profiles** on the adoption of ISSB Standards that include each jurisdiction's stated target for alignment with ISSB Standards and the current status of its sustainability-related disclosure requirements.
- launched **IFRS Sustainability Knowledge Hub** to support companies in understanding IFRS S1 and IFRS S2.
- released the June 2025 IFRS **Sustainability Reference Group meeting slides**.

International Public Sector Accounting Standards Board (IPSASB)

- in relation to IPSASB SRS ED 1 *Climate-related Disclosures*:
 - finalize standard (vote planned for December 2025).

- develop a separate standard for public sector entities responsible for delivering climate-related public policy programs and their outcomes for release at the end of 2026.
- released the IPSAS **Exposure Draft (ED) 93, Definition of Material** (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework) to provide more consistent guidance on materiality across the IPSASB's financial reporting literature. Comments close on 14 July 2025. This project will be undertaken in three distinct phases:
 - Phase 1—Review the consistency of the definition of 'material'
 - Phase 2—Materiality in Financial Reporting
 - Phase 3—Materiality in Sustainability Reporting

International Organization of Securities Commissions (IOSCO)

- issued statement of support on the ISSA 5000 and recognised it fulfills key IOSCO's recommendations.
- published a **consultation report – Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges**. Comments closed on 11 April 2025.
- published a **Report on Transition Plan Disclosures**.

Canada

The Canadian Sustainability Standards Board (CSSB)

- released the Canadian Sustainability Disclosure Standards - CSDS 1 *General Requirements for Disclosure of Sustainability-related Financial Information*, and CSDS 2 *Climate-related Disclosures*. Reporting is voluntary however the Canadian government has announced there will mandatory climate-related disclosures for large, federally incorporated private companies in the future.

United States

Public Company Accounting Oversight Board (PCAOB)

- issued the following Spotlight publications:
 - **Considerations for Audit Firms Using the Work of Specialists**.
 - **Staff Priorities for 2025 Inspections and Interactions With Audit Committees**, highlighting the topics that auditors should consider when planning and performing audits, as well as sectors and industries that PCAOB inspection staff will prioritise. The report also provides a set of suggested questions that audit committees may consider for their auditors.
 - **Insights on Culture and Audit Quality**, discussing the impact of centralisation, remote work, messaging from audit firm leaders, and other aspects of firm culture that can affect audit quality.
- issued the following Audit Focus series publications:
 - **Audit Committee Communications**, highlighting common deficiencies in auditors' work, and good practices that PCOAB staff have observed.
 - **Critical Audit Matters**, highlighting common deficiencies made by auditors, and shares good practices that the staff has observed.
- released **2024 annual report** highlighting PCAOB accomplishments.

The Centre for Audit Quality (CAQ)

- published the fourth edition of the **Audit Committee Practices Report**, jointly with Deloitte's Center for Board Effectiveness.
- published the 11th iteration of the annual **Audit Committee Transparency Barometer Report**, jointly with Ideagen Audit Analytics. The report highlights the progress in audit committee disclosures, the need for continuous improvement, leading disclosure examples and questions for consideration.
- partnering with the Anti-Fraud Collaboration (AFC), provided **insights** and actionable guidance for organizations looking to strengthen their culture and anti-fraud efforts while navigating an evolving work environment.

Europe

- The Committee of European Auditing Oversight Bodies published an **Insight Paper** on the *Challenges and applications of advanced technologies in audit firms*, which summarises the insights in the procedures concerning the adoption and use of these technologies in audits.

United Kingdom

Financial Reporting Council (UK FRC)

- published the **first in a series of materials** and **further supporting material** to support small and medium-sized enterprises in understanding audit requirements and to engage with the annual audit process effectively and confidently.
- issued updated **Guidance** on the *'Going Concern Basis of Accounting and Related Reporting, including Solvency and Liquidity Risks'*, to help companies demonstrate the assessments underlying their going concern conclusions.
- published the final **report** from its market study into the assurance of sustainability reporting, recommending three key actions:
 - Establish a clear UK policy framework for sustainability assurance that provides medium-term certainty for providers and reporters, supports investment, and aligns with international frameworks where appropriate.
 - Create a unified regulatory regime that consolidates standard setting, oversight, enforcement, and market monitoring to maximise certainty for companies, providers, and investors.
 - Improve the calibre of available information on the quality of sustainability assurance to support how the assurance market functions.
- published a thematic **review** of Climate-related Financial Disclosures (CFD) by Alternative Investment Market (AIM) and large private companies, following the first cycle of mandatory reporting.
- published **final recommendations** to the Secretary of State for Business and Trade, with minor amendments, recommending endorsement of the IFRS S1 and IFRS S2 for use in the UK and extending the 'climate first' reporting relief from one to two years.
- published its **annual inspection findings** for Tier 2 and Tier 3 audit firms. The report highlights areas where firms have made progress but also identifies challenges that exist across this part of the market in achieving consistent audit quality, particularly in the Public Interest Entity sector.

The Institute of Chartered Accountants in England and Wales (ICAEW)

- introduced **resources** on Artificial Intelligence (AI), which include masterclasses and guidance on the use of AI and Generative AI.
- launched the **Sustainability Accelerator Programme**, which offers a series of e-learning resources and certificates to equip chartered accountants and finance professionals with the practical skills and technical expertise to build the case for sustainability and ESG reporting.
- expressed **concerns** on the IPSASB's Sustainability Reporting Standards Exposure Draft (IPSASB SRS ED) 1, *Climate-related Disclosures proposes disclosure*, that its proposed definition of climate-related public policy programmes – which limits company disclosures to policies with climate-related outcomes as their primary objective – was too narrow. The ICAEW suggested broadening the scope to include all material policies that contribute to a country's climate targets.

New Zealand

External Reporting Board (XRB)

- published a series of **guides** on transition planning.
- issued a **consultation document and an Exposure Draft** of ISA for LCE.
- published a **Greenhouse Gas (GHG) Assurance Report Explainer**.
- published a **Greenhouse gas (GHG) emissions guidance** and a **GHG assurance snapshot** to provide guidance and a summary of assurance obtained over GHG emissions disclosures in climate statements.
- approved equivalent of ISA 570 *Going Concern*.
- issued a **consultation paper** on *Reporting and assurance of service performance information – Tier 1 and 2 not-for-profit entities*. Comments close on 29 August 2025.

Key sustainability reporting and assurance developments

The table below provides an overview of developments in major jurisdictions on sustainability reporting and assurance. This list is not exhaustive.

No.	Region	Jurisdiction	Reporting developments	Assurance developments
1	Europe	Europe	<ul style="list-style-type: none"> On 29 January 2025 the European Commission published the EU Competitiveness Compass that proposed far-reaching simplification of sustainability reporting, due diligence and taxonomy. On 26 February 2025 the EU published the Omnibus Package which proposed to reduce the sustainability reporting and due diligence requirements, and reducing assurance requirements by maintaining limited assurance for CSRD reports. On 3 April 2025 the European Parliament adopted the proposals in the first Omnibus Package to simplify EU Sustainability legislation and postpone the reporting by entities that have not yet started reporting by two years. Also to substantially reduced the number of companies who must report, reduced the mandatory datapoints, and prioritised quantitative datapoints over narrative text. The revisions will also provide clearer instructions on applying the materiality principle to ensure that entities do not over-report, as well as stronger interoperability with global standards. EFRAG are to provide technical advice on the revisions to the EU Sustainability Reporting Standards by 31 October 2025, to allow the revised ESRS to be used in reporting for financial year 2027 and possibly for financial year 2026. <p>For more information on the Omnibus Package, see European Parliament News.</p>	<ul style="list-style-type: none"> No decision has been made on whether to move to reasonable assurance.
		France	<ul style="list-style-type: none"> Transposed the CSRD into French law to mandate sustainability reporting. First wave companies are required to disclose sustainability reports in 2025 on FY2024 data. Second wave companies are required to disclose sustainability reports in 2028 on FY2027 data. 	<ul style="list-style-type: none"> Limited assurance is required starting from 2024 for Group 1 entities. Consider strengthening to reasonable assurance. Comply with Committee of European Oversight Bodies (CEAOB) Standard that the European Commission plans to adopt no later than 1st October 2026. In the absence of the CEOB standard, practitioners shall comply with the

No.	Region	Jurisdiction	Reporting developments	Assurance developments
			<ul style="list-style-type: none"> Third wave companies are required to disclose sustainability reports in 2029 on FY2028 data. 	sustainability assurance standards issued by the High Audit Authority (H2A).
		Germany	<ul style="list-style-type: none"> Developed the Local Sustainability Reporting Framework (BNK) to comply with CSRD. Companies are required to prepare sustainability reports as per the ESRS, starting from the FY 2025. 	<ul style="list-style-type: none"> Intends to adopt ISSA 5000 but there is uncertainty about the impact of the European Commission “omnibus” proposals.
		Italy	<ul style="list-style-type: none"> Complied with CSRD and mandated sustainability reporting with a phasing implementation: <ul style="list-style-type: none"> 1 Jan 2024: large listed companies with more than 500 average employees. 1 Jan 2025: all other large companies. 1 Jan 2026: small and medium-sized listed enterprises; and non-complex entities. 	<ul style="list-style-type: none"> Limited assurance will be required and will transit to reasonable assurance pending on the European Commission’s adoption of standards in this respect.
		Netherlands	<ul style="list-style-type: none"> Complied with CSRD and mandated sustainability reporting with a phasing implementation: <ul style="list-style-type: none"> 1 Jan 2026: listed entities. 1 Jan 2027: large unlisted companies 1 Jan 2028: listed SMEs; and small and non-complex credit institutions and insurance companies. Medium-sized and small businesses are exempted until at least financial year 2026. 	<ul style="list-style-type: none"> Limited assurance will be required (as required by CSRD).
		Spain	<ul style="list-style-type: none"> Complied with CSRD and mandated sustainability reporting with a phasing implementation: <ul style="list-style-type: none"> 1 Jan 2024: large listed companies with an average number of employees exceeding 500. 1 Jan 2025: all other large companies and dominant entities of large groups. 1 Jan 2026: SMEs listed on a regulated market in the European Union, and which are not micro-enterprises 1 Jan 2028: Spanish subsidiaries and branches of third-country companies with over EUR 150 million turnover in the EU for each of the last two consecutive financial years. 	<ul style="list-style-type: none"> Limited assurance will be required from 1 October 2026. Transits to reasonable assurance by 1 October 2028 pending on the European Commission’s adoption of standards in this respect.
2	Switzerland	Switzerland	<ul style="list-style-type: none"> Proposed to adopt international standards, including ISSA 5000, CSRD, European Sustainability Reporting Standards (ESRS)¹⁰ and European Single Access Point (ESAP) 	<ul style="list-style-type: none"> Proposed to require assurance (limited or reasonable) from the first year of reporting.

No.	Region	Jurisdiction	Reporting developments	Assurance developments
			<p>and provide freedom to choose the standard.</p> <ul style="list-style-type: none"> If approved, mandatory sustainability reports will be required from 1 January 2026. 	
3	United Kingdom	United Kingdom	<ul style="list-style-type: none"> Currently assessing the suitability of ISSB standards S1 and S2 for adoption in the UK. If this assessment concludes with an affirmative endorsement decision, the UK FRC aims to consult on exposure drafts of UK Sustainability Reporting Standards (SRS) in Quarter 1 2025. 	<ul style="list-style-type: none"> Issued a consultation on a proposed UK version of ISSA 5000 for use on a voluntary basis.
4	North America	National – US SEC	<ul style="list-style-type: none"> Voted to end defense of the rules requiring disclosure of climate-related risks and greenhouse gas emissions and that Commission counsel are no longer authorized to advance the arguments in the brief the Commission had filed. 	
		California	<p><i>California's Climate Corporate Data Accountability Act</i></p> <ul style="list-style-type: none"> Businesses registered in the U.S. and doing business in California will be required to disclose scope 1, 2 and 3 emissions. Scope 1 and 2 will require limited assurance. Scope 3 emissions reporting will be required in 2027 on 2026 data and annually thereafter. 	<ul style="list-style-type: none"> Scope 1 and 2 data will require reasonable assurance from 2030. Scope 3 data will require limited assurance.
		New York	<ul style="list-style-type: none"> Bill similar to California law failed to pass in New York State in June 2025. 	<ul style="list-style-type: none"> Bill similar to California law failed to pass in New York State in June 2025.
		Illinois	<ul style="list-style-type: none"> Bill similar to California law continues to move through the state legislature in Illinois 	<ul style="list-style-type: none"> Bill similar to California law continues to move through the state legislature in Illinois
		New Jersey	<ul style="list-style-type: none"> Bill similar to California law continues to move through the state legislature in New Jersey 	<ul style="list-style-type: none"> Bill similar to California law continues to move through the state legislature in New Jersey
		Washington State	<ul style="list-style-type: none"> Bill similar to California law continues to move through the state legislature in Washington. 	<ul style="list-style-type: none"> Bill similar to California law continues to move through the state legislature in Washington.
		Canada	<ul style="list-style-type: none"> Developed CSDS 1 and 2 to adopt IFRS S1 and S2 for voluntary disclosure until they are incorporated into a CSA rule. The CSSB proposed to mandate CSDS 1 starting from Jan 2027 and CSDS 2 starting from Jan 2028. 	<ul style="list-style-type: none"> Issued Re-exposure Draft to adopt ISSA 5000 as CSSA 5000.
5	South America	Brazil	<ul style="list-style-type: none"> Developed CBPS 01 and CBPS 02 to adopt IFRS S1 and S2. Mandated CBPS 01 and CBPS 02 disclosure for listed entities subject to CVM regulation for fiscal years beginning on or after 1 January 2026. For institutions subject to CMN and BCB regulations (e.g., financial 	<ul style="list-style-type: none"> ISSA 5000 to be approved. The CVM mandated assurance on sustainability-related financial disclosure in accordance with the standards issued by the Federal Accounting Council (CFC) (not adopted ISSA 5000 yet), following: <ul style="list-style-type: none"> i. until the end of the 2025 fiscal year: limited assurance; and

No.	Region	Jurisdiction	Reporting developments	Assurance developments
			institutions) mandated CBPS 01 and CBPS 02 disclosure: <ul style="list-style-type: none"> for segment 1 and 2 institutions beginning on or after 1 January 2026; for all other institutions beginning on or after 1 January 2028. 	ii. from fiscal years beginning on or after 1 January 2026: reasonable assurance.
6	Asia-Pacific	New Zealand	<ul style="list-style-type: none"> Developed NZ Climate Standards aligned with TCFD recommendations. Mandatory reporting commenced 1 January 2023 for large entities. Following consultation, the XRB approved amendments to the NZ reporting standards to extend for an additional year for scope 3 disclosures and anticipated financial impact disclosures. 	<ul style="list-style-type: none"> In compliance with ISAE 3000 or ISOs, assurance is mandatory for scope 1 and 2 emissions from year 1 and scope 3 for financial year beginning on or after 1 Jan 2026. The XRB will consult on adopting ISSA 5000 for voluntary assurance.
		Japan	<ul style="list-style-type: none"> The Sustainability Standards Board of Japan (SSBJ) issued the Japanese version of the Sustainability Disclosure Standards, aligning with the ISSB S1 and ISSB S2. Japan authorities are mandating reporting in a multi-staged approach with large entities required to issue their first sustainability report for the financial year ending March 2027. 	<ul style="list-style-type: none"> Since February 2025, the JFSA has engaged in discussions around requiring external assurance on sustainability disclosures by the auditors of listed companies. The FSA intends to formulate a domestic sustainability assurance framework and implementation rules by adhering to ISSA 5000.
		Singapore	<ul style="list-style-type: none"> Publicly listed companies (PLCs) starting from FY2025 and large non-listed companies (NLCs) from FY2027. 	<ul style="list-style-type: none"> Mandatory external limited assurance on Scope 1 and Scope 2 GHG emissions from FY2027 for PLCs and FY2029 for large NLCs using ISSA 5000 equivalent. The Institute of Singapore Chartered Accountants will adopt ISSA 5000 with an expected effective date of 15/12/16.
		Hong Kong	<ul style="list-style-type: none"> Adopted ISSB S1 and S2 and issued the Hong Kong-equivalent HKFRS S1 and HKFRS S2. All Main Board issuers are required to disclose based on ISSB standards from 1 January 2025 on a 'comply or explain' basis. Large cap issuers will be required to disclose based on IFRS S2 from 1 January 2026. 	<ul style="list-style-type: none"> Expected to adopt ISSA 5000.
		Malaysia	<ul style="list-style-type: none"> Adopted the IFRS S1 and S2 and mandated sustainability reporting (Scope 1, 2, and 3 emissions) for fiscal years beginning on or after: <ul style="list-style-type: none"> 1 January 2027 for Group 1 entities; 1 January 2028 for Group 2 entities; 	<ul style="list-style-type: none"> Issued Exposure Draft of the adoption of ISSA 5000 in 2023. Aims for reasonable assurance for Scope 1 and 2 GHG emissions for Group 1 entities starting 2027 – subject to further discussion.

No.	Region	Jurisdiction	Reporting developments	Assurance developments
			<ul style="list-style-type: none"> 1 January 2030 for Group 3 entities. 	
		Thailand	<ul style="list-style-type: none"> The SEC Thailand proposed to adopt the ISSB standards and mandate sustainability reporting with a phasing implementation: <ul style="list-style-type: none"> For 2026: Listed companies categorized in SET50 Index to report in 2027 For 2027: Listed companies categorized in SET100 Index to report in 2028 For 2029: All listed companies in SET including its IPO to report in 2030 For 2030: Listed companies in mai including its IPO, REIT17, IFF, Infra Trust, and Property Fund to report in 2031. For the first five reporting years, Scope 3 can be omitted (only Scope 1 and 2 required). 	<ul style="list-style-type: none"> The SEC Thailand proposed to mandate limited assurance in accordance with internationally accepted assurance standards (e.g. ISAE, ISSA 5000 or ISO).
		India	<ul style="list-style-type: none"> The SEBI mandated sustainability reporting based on its Business Responsibility and Sustainability Reporting (BRSR) Core framework. The reporting framework is not based on ISSB standards and consists of 9 KPIs. The top 1000 listed entities are required to disclose sustainability reports based on the BRSR Core framework starting from FY 2023-24; and includes value chain and scope 3 from 2025-26. 	<ul style="list-style-type: none"> The SEBI doesn't mandate ISSA 5000 and allows companies to use the India-equivalent ISAE 3000 and ISAE 3410. The SEBI mandated reasonable assurance for the top 150 listed entities from FY 2023-24 and will progress to all 1000 entities by 2026-27. Limited assurance is required over scope 3.
7	Africa	South Africa	<ul style="list-style-type: none"> IRBA is undertaking a post-implementation review of the 2018 sustainability assurance standard and is likely to update based on ISSA 5000. 	<ul style="list-style-type: none"> Expected to adopt ISSA 5000.

List of organisations monitored for developments

International Standard Setting Bodies

Public Interest Oversight Body (PIOB)
International Auditing and Assurance Standards Board (IAASB)
International Ethics Board for Accountants (IESBA)
International Sustainability Standards Board (ISSB)
International Accounting Standards Board (IASB)
International Public Sector Accounting Standards Board (IPSASB)
International Financial Reporting Standards Foundation (IFRS)
International Accreditation Forum (IAF)

International Regulatory Organisations

International Forum of Independent Audit Regulators (IFIAR)
International Organisation of Securities Commissions (IOSCO)

International Professional Bodies

International Federation of Accountants (IFAC)
Association of Chartered Certified Accountants (ACCA)

Australia

Accounting Professional & Ethical Standards Board (APESB)
Australian Accounting Standards Board (AASB)
Australian Institute of Company Directors (AICD)
Australian Securities & Investments Commission (ASIC)
Largest 6 Audit Firms (Deloitte, EY, KPMG, PwC, Grant Thornton and BDO)
Chartered Accountants Australia and New Zealand (CA ANZ)
CPA Australia
Clean Energy Regulator (CER)
Institute of Public Accountants
Parliamentary Joint Committee (PJC) on Corporations and Financial Services
The Treasury

New Zealand

External Reporting Board (XRB)
New Zealand Auditing and Assurance Standards Board (NZAuASB)

Europe

Committee of European Auditing Oversight Bodies (CEAOB)
The European Commission

United Kingdom

Financial Reporting Council (FRC)
Institute of Chartered Accountants in England and Wales (ICAEW)

United States

Securities and Exchange Commission (SEC)
Public Company Accounting Oversight Board (PCAOB)
American Institute of Certified Public Accountants (AICPA)
Chartered Institute of Management Accountants (CIMA)
Centre for Audit Quality (CAQ)

Canada

Canadian Public Accountability Board (CPAB)
Canadian Auditing and Assurance Standards Board (AASB)
Canadian Sustainability Standards Board (CSSB)

Singapore

Accounting and Corporate Regulatory Authority (ACRA)
Singapore Exchange (SGX)
Institute of Singapore Chartered Accountants (ISCA)

Japan

Sustainability Standards Board of Japan (SSBJ)
Japanese Financial Services Authority (JFSA)

South Africa

Independent Regulatory Board for Auditors (IRBA)



AUASB Agenda Paper

Title: Sustainability assurance implementation

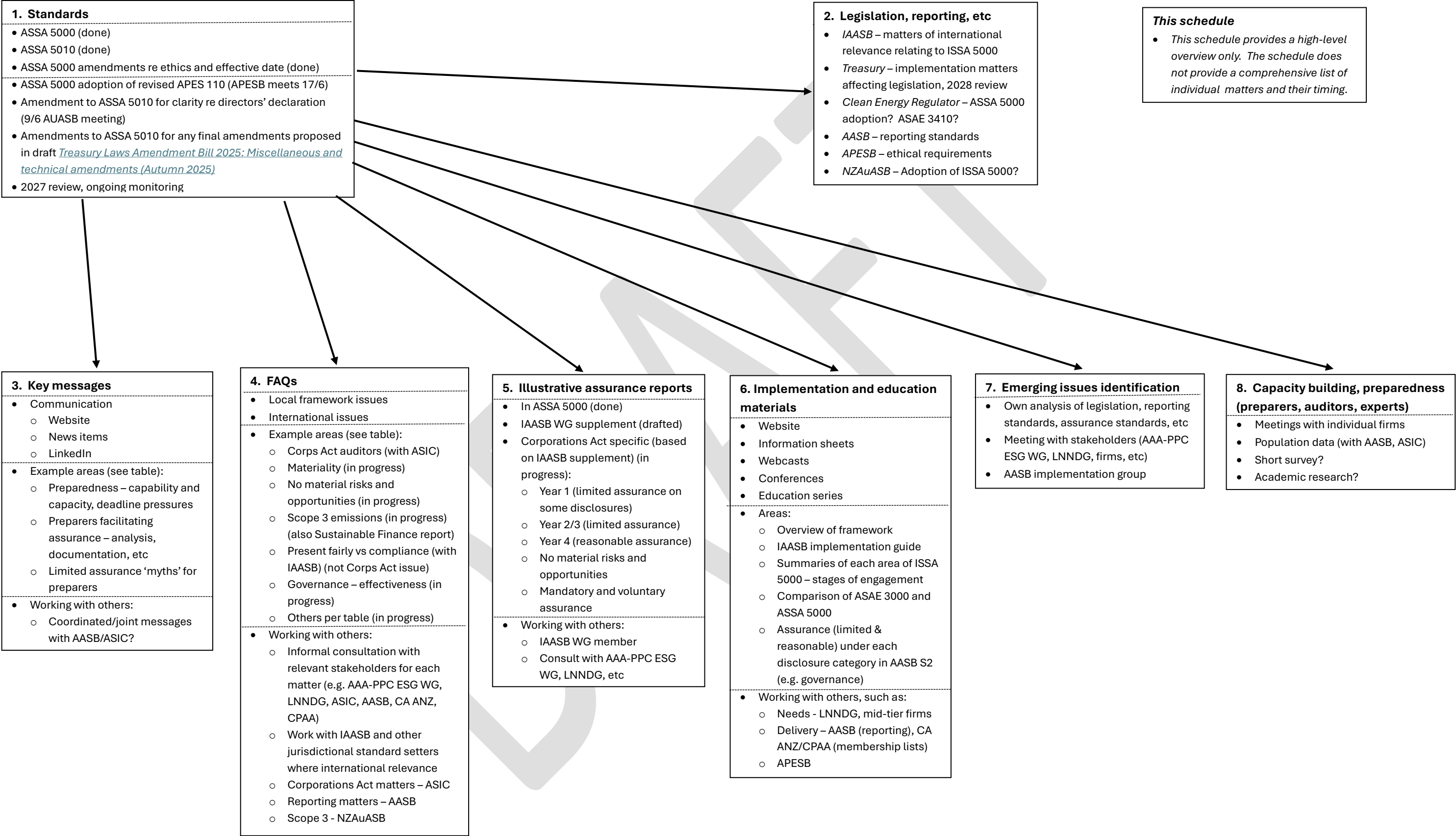
Date: 9 July 2025

Office of the AUASB: Doug Niven

Agenda Item: 5.0

A high-level overview of the work of the Office of the AUASB on sustainability assurance implementation is provided at Agenda Paper 5.1 for the information of AUASB members.

SUSTAINABILITY ASSURANCE
AUASB IMPLEMENTATION SUPPORT, GUIDANCE AND EDUCATION





AUASB Agenda Paper

Title:	Amendments to ASA 102 and ASSA 5000 for revisions to APES 110	Date:	9 July 2025
Office of the AUASB:	Anne Waters / See Wen Ewe	Agenda Item:	6.0

Objective of this agenda paper

1. To seek approval (in-principle for AUASB 2025-7) to issue the following standards and related explanatory statements:
 - (a) **AUASB 2025-5** - Amending ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102) so that 'relevant ethical requirements' in all standards other than the sustainability assurance standards refers to APES 110 as amended for *Addressing Tax Planning and Related Services Matters*, subject to any later effective date in APES 110; and
 - (b) **AUASB 2025-7** - Amending the following standards for the version of APES 110 that will include APESB's proposed *Amending Standard for Sustainability Assurance and Reporting and the Use of External Experts*:
 - (i) **ASA 102** – from the operative date of that standard; and
 - (ii) **ASSA 5000 General Requirements for Sustainability Assurance Engagements (ASSA 5000)** – for:
 - a. *Corporations Act 2001* reporting and assurance - periods commencing on or after 1 January 2026;
 - b. Other assurance - as at a specified date on or after 1 January 2026, except that any later effective dates and any transitional provisions in the proposed APES 110 would continue to apply. Early adoption would be permitted and encouraged.

Questions for AUASB members

No.	Question
1	Do AUASB members approve AUASB 2025-7 to update ASA 102 so that 'relevant ethical requirements' in all standards other than the sustainability assurance standards refers to APES 110 as amended for <i>Addressing Tax Planning and Related Services Matters</i> , subject to any later effective date in APES 110 (see Agenda Paper 6.1)?
2	Do AUASB members approve AUASB 2025-7 in-principle to update the following standards to refer to the version of APES 110 that will include APESB's proposed <i>Amending Standard for Sustainability Assurance and Reporting and the Use of External Experts</i> : <ol style="list-style-type: none">(a) ASA 102 – the operative date of that Standard; and(b) ASSA 5000 - for:<ol style="list-style-type: none">(i) <i>Corporations Act 2001</i> reporting - periods commencing on or after 1 January 2026;(ii) Other assurance - as at a specified date on or after 1 January 2026, except that any later effective dates and any transitional provisions in the proposed revised APES 110 would continue to apply (early adoption would be permitted and encouraged) (see Agenda Paper 6.3)?
3	Do AUASB members approve: <ol style="list-style-type: none">(a) The explanatory statement to AUASB 2025-5 (see Agenda Paper 6.2)?(b) The explanatory statement to AUASB 2025-7 in-principle (see Agenda Paper 6.4)?
4	Do AUASB members agree that the proposed amending standards do not require exposure (see paragraph 14 of this paper)?

Taxation advice

3. In [January 2025](#) the APESB issued a standard amending APES 110 for Tax Planning and Related Services effective from periods commencing 1 July 2025. These amendments apply to members of the professional accounting bodies in public practice including those providing assurance services.
4. It is recommended that ASA 102 be updated to refer to the amended APES 110. See proposed amending standard AUASB 2025-5 at Agenda Paper 6.1.

Use of external experts and sustainability assurance**Background**

5. At its meeting on 14 May 2025 the AUASB considered the feedback received on [ED 01/25 ASSA 5000 Proposed amendments to ASSA 5000 General Requirements for Sustainability Assurance Engagements and ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements](#). ED 01/25 concerned proposed amendments to ASSA 5000 to address possible practical matters arising on the initial application of Part 5 of the IESBA Code on sustainability assurance.
6. The AUASB decided to:
 - (a) amend ASSA 5000 to apply the current APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* instead of Parts 1 to 4A of the existing APES 110 (which did not yet include Part 5) and Part 5 of the IESBA Code; and
 - (b) consider adoption of the revised APES 110 (including Part 5) after it is issued by the APESB, with application from the effective dates specified by the APESB.

APESB's adoption of Part 5 of the IESBA Code

7. At its meeting on 17 June 2025 the APESB considered feedback received on their ED 01/25 *Sustainability Assurance and Reporting* and ED 02/25 *The Use of External Experts*. As detailed in the APESB's meeting papers [agenda item 6](#) the majority of respondents were supportive of (or did not oppose) the proposed effective dates in the APESB exposure drafts, other than the effective date for the value chain component provisions. The APESB voted to adopt the proposed effective dates and to re-align the value chain components effective date with the IESBA effective date.

Submissions on AUASB ED 01/25

8. All submissions on the AUASB's ED 01/25 supported adopting the APESB's Amending Standard. Five of the seven respondents would supported using APESB's proposed effective dates, and two respondents preferred the IESBA's later adoption date of 15 December 2026. An additional submission from the Australian Accounting and Audit Public Policy Practice Committee supported adopting the changes from the APESB's effective date.

Analysis**ASSA 5000**

9. The Office of the AUASB considered the following when making its recommendation:
 - (a) The majority of respondents to the APESB's exposure drafts supported (or did not oppose) adopting the revised APES 110 from the APESB's effective date.
 - (b) The majority of respondents to AUASB ED 01/25 supported the APESB and the AUASB application dates being consistent.
 - (c) Members of the Professional Accounting Bodies will be required to comply with the updated APES 110 from the APESB's effective dates.
10. It is recommended that ASSA 5000 is amended to adopt the revised APES 110 with effective dates consistent with APES 110 (see proposed amending standard AUASB 2025-7 at Agenda Paper 6.3).

ASA 102

11. The new provisions on the Use of External Experts in the APESB's Amending Standard can apply for financial report audits and reviews, and other assurance engagements. It is recommended that ASA 102 be amended for the revised APES 110. The provisions on the Use

of External Experts would be effective from 1 January 2027 (refer proposed AUASB 2025-7 in Agenda Paper 6.3).

12. AUASB 2025-7 cannot be made until after the APESB issues their amending standard in the second week of July 2025.

Due process and re-exposure

13. Having regard to the AUASB *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*, it is recommended that the proposed AUASB 2025-7 not be exposed on the basis that:
 - (a) The amendments to ASSA 5000 are consistent with feedback received on AUASB ED 01/25;
 - (b) In adopting the revised APES 110, the amended ASSA 5000 will be consistent with ISSA 5000;
 - (c) The revisions and proposed revisions to APES 110 were subject to public exposure by the APESB and the International Ethics Standards Board for Accountants;
 - (d) APES 110 already applies to all members of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants. Those members include the majority of practitioners to whom the revised ASA 102 and ASSA 5000 will apply; and
 - (e) Amendments to ASA 102 to adopt changes to APES 110 have not been exposed in the past.
14. The Office of Impact Analysis has advised that no impact assessment is required.

Retrospectivity

15. The underlying effective dates of the changes to proposed changes to APES 110 covered by the draft AUASB 2025-7 are 1 January 2026 or later. However, the underlying effective date of the changes to APES 110 covered by the draft AUASB 2025-5 APES 110 are effective for tax planning activities and services beginning on or after 1 July 2025. The draft Explanatory Statement to AUASB 2025-5 explains why the underlying effective date is not expected to disadvantage any person.

Next steps

16. Subject to Board approval and any minor editorials:
 - (a) AUASB 2025-5 will be issued; and
 - (b) AUASB 2025-7 will be issued after APESB's Amending Standard is issued, unless there are any significant changes in the final APESB standard.

Agenda paper	Description
6.1	Draft AUASB 2025-5 <i>Amendments to AUASB Standard</i>
6.2	Draft Explanatory Statement to AUASB 2025-5
6.3	Draft AUASB 2025-7 <i>Amendments to AUASB Standards</i>
6.4	Draft Explanatory Statement to AUASB 2025-7

AUASB 2025-5
(July 2025)

AUASB 2025-5

Amendments to AUASB Standard

Issued by the **Auditing and Assurance Standards Board**

Draft



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Standard

This Standard is available on the Auditing and Assurance Standards Board website:
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Draft

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CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

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Draft

PREFACE

Reasons for Issuing AUASB 2025-5

The AUASB issues AUASB 2025-5 *Amendments to AUASB Standard* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Standard makes amendments to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagement* (issued 16 December 2024). The Accounting Professional & Ethical Standards Board Limited has recently issued amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) for changes to the corresponding International Ethics Standards Board for Accountants' Code relating to taxation advice, with adaptations and additional requirements to suit the Australian environment. The amendments to ASA 102 are made to refer to the amended APES 110 (issued in November 2018 incorporating all amendments to January 2025).

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Standard AUASB 2025-5 *Amendments to AUASB Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

D Niven
Chair - AUASB

Draft

Conformity with International Standards on Auditing

This Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing issued by the International Auditing and Assurance Standards Board.

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AUASB 2025-5
Amendments to AUASB Standard

Application

1. This Auditing Standard applies as outlined in paragraph 1 of ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

Operative Date

2. This Standard is operative from the operative date in paragraph 2 of ASA 102 as amended by this Standard.

Introduction

3. This Standard amends ASA 102.

Objective

4. The objective of this Standard is to make amendments to ASA 102 to update references to the amended APES 110 (issued in November 2018 incorporating all amendments to January 2025).

Amendments to ASA 102

5. This Standard uses underlining, striking out and other typographical material to identify the amendments to ASA 102, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined.

6. Existing paragraph 2 is amended to read as follows:

This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2025, except that any later effective dates and any transitional provisions in APES 110 (as defined in paragraph 5(d) of this Standard) apply.

7. Existing paragraph 5(d) is amended to read as follows:

Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) (November 2018 incorporating all amendments to January 2025~~June 2024~~) (APES 110), the applicable provisions of the Corporations Act 2001 and other applicable law or regulation.

AUASB 2025-5
(July 2025)

Explanatory Statement

AUASB 2025-5 Amendments to AUASB Standard

Issued by the **Auditing and Assurance Standards Board**

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Australian Government

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Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Reasons for Issuing Auditing Standard AUASB 2025-5

The AUASB issues AUASB 2025-5 *Amendments to AUASB Standard* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Purpose of Standard AUASB 2025-5 *Amendments to AUASB Standard*

The purpose of the Standard is to make amendments to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagement* (issued 16 December 2024). The Accounting Professional & Ethical Standards Board Limited (APESB) has recently issued amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) for changes to the corresponding International Ethics Standards Board for Accountants' Code relating to taxation advice, with adaptations and additional requirements to suit the Australian environment. The amendments to ASA 102 are made to refer to the amended APES 110 (issued in November 2018 incorporating all amendments to January 2025).

Main Features

This Auditing Standard amends ASA 102 (issued 16 December 2024) to refer to the amended APES 110 (issued in November 2018 incorporating all amendments to January 2025).

Operative Date

AUASB 2025-5 *Amendments to AUASB Standard* is operative in accordance with the operative date of ASA 102, except that any later effective dates and any transitional provisions in the revised APES 110 apply.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Standard

AUASB 2025-5 does not require public exposure as the amendments are to adopt the revised APES 110. The revisions to APES 110 were subject to public exposure by the APESB and the International Ethics Standards Board for Accountants. APES 110 already applies to all members of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants. Those members include almost all registered company auditors to whom the revised ASA 102 applies.

Impact Analysis

A Preliminary Assessment form has been prepared in connection with the preparation of AUASB 2025-5 and lodged with the Office of Impact Analysis (OIA). The OIA advised that an Impact Analysis is not required in relation to the standard.

Exemption from Sunsetting

Auditing Standards promulgated by the AUASB that are legislative instruments are exempt from the sunset provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. The AUASB's Standards are exempt from sunset because a more stringent review process than sunset applies to the Standards. This review process ensures Australia's Auditing Standards regime remains consistent with international standards. Typically, the AUASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AUASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunset regime would have very limited practical application to AUASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Effective date of changes to APES 110

The underlying changes to APES 110 covered by the AUASB 2025-5 are effective for tax planning activities and services beginning on or after 1 July 2025. AUASB 2025-5 was made on XX July 2025. In practice, most assurance engagements covered by AUASB standards will be for twelve month reporting periods and the first engagements will be for 30 June 2026 year ends, and the majority of the assurance work will commence post XX July 2025. It is unlikely that there will be assurance engagements reported for periods that commenced on 1 July 2025 and ended before XX July 2025, or that assurance work would be concluded during that period. Further, the revised APES 110 was issued by the APESB in January 2025 and already applies to all members of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants. As noted earlier, those members include almost all registered company auditors to whom the revised ASA 102 applies. Therefore, the commencement periods are not expected to disadvantage any person.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **AUASB 2025-5 Amendments to AUASB Standard**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard AUASB 2025-5

The purpose of AUASB 2025-5 is to amend ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagement* (issued 16 December 2024). The Accounting Professional & Ethical Standards Board Limited has recently issued amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) for changes to the corresponding International Ethics Standards Board for Accountants' Code relating to taxation advice, with adaptations and additional requirements to suit the Australian environment. The amendments to ASA 102 are made to refer to the amended APES 110 (issued in November 2018 incorporating all amendments to January 2025).

Main Features

AUASB 2025-5 amends ASA 102 (issued 16 December 2024) to refer to the amended APES 110 (issued in November 2018 incorporating all amendments to January 2025).

Human Rights Implications

AUASB 2025-5 was issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standard does not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

AUASB 2025-7
(July 2025)

AUASB 2025-7

Amendments to AUASB Standards

Issued by the **Auditing and Assurance Standards Board**

Draft



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Standard

This Standard is available on the Auditing and Assurance Standards Board website:
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PREFACE

Reasons for Issuing AUASB 2025-7

The AUASB issues AUASB 2025-7 *Amendments to AUASB Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Standard makes amendments to the requirements, application and other explanatory material and appendices of the following AUASB Standards:

ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (Issued 28 January 2025 and amended to 23 May 2025)

ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (issued 16 December 2024 and amended to XX July 2025)

The amendments arise from changes made by the Accounting Professional & Ethical Standards Board Limited to *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* in relation to the use of external experts and sustainability assurance.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board makes AUASB 2025-7 *Amendments to AUASB Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

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Chair - AUASB

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Conformity with International Standards on Auditing

This Standard makes amendments to Australian Standard on Sustainability Assurance ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (ASSA 5000) and Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102).

ASSA 5000 conforms with International Standard on Sustainability Assurance ISSA 5000 *General Requirements for Sustainability Assurance Engagements* issued by the International Auditing and Assurance Standards Board (IAASB).

ASA 102 has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing issued by the IAASB.

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AUASB 2025-7
Amendments to AUASB Standards

Application

1. This Standard applies:
 - (a) as outlined in paragraphs Aus 0.1 and Aus 0.2 of Australian Standard on Sustainability Assurance ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (ASSA 5000); and
 - (b) as outlined in paragraph 1 of Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102).

Operative Date

2. The amendments made by this standard are operative as follows:
 - (a) For ASSA 5000 – as outlined in paragraph Aus 0.3 of ASSA 5000; and
 - (b) For ASA 102 – as outlined in paragraph 2 of ASA 102, except that any later effective dates and any transitional provisions in APES 110 (as defined in subparagraph 5(d) of ASA 102 as amended by this Standard) apply.

Introduction

3. This standard amends ASSA 5000 and ASA 102.

Objective

4. The objective of this standard is to make amendments to ASSA 5000 and ASA 102 for changes made by the Accounting Professional & Ethical Standards Board Limited to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* in relation to the use of external experts and sustainability assurance.

Amendments to AUASB Standards

5. This standard uses underlining, striking out and other typographical material to identify the amendments, in order to make the amendments more understandable. However, the amendments made by this standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined.

Amendments to ASSA 5000

6. The section on ‘Conformity with International Standards on Sustainability Assurance’ in ASSA 5000 is amended as follows:

Conformity with International Standards on Sustainability Assurance

...

The following paragraphs and definitions are additional to or have been amended from ISSA 5000:

Paragraph	Summary of Change
-----------	-------------------

Aus 6.1	Replaces ISSA 5000 introductory paragraph 6 to refer to ‘the provisions of the <u>Code APES 110 Code of Ethics for Professional Accountants (including Independence Standards)</u> (November 2018 incorporating all amendments to June 2024)’ (which is defined in paragraph Aus 18.1) instead of ‘the provisions of the <i>International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to sustainability assurance engagements’.
Aus 18.1	Introduces the definition of ‘the Code’ being <u>different versions of ‘APES 110 Code of Ethics for Professional Accountants (including Independence Standards)’ (November 2018 incorporating all amendments to June 2024): depending upon the engagement and reporting period</u> (see also Aus 18.3 below).
Aus 18.2	Replaces the definition of ‘Engagement team’ to prohibit the use of internal auditors to provide direct assistance in a sustainability assurance engagement.
Aus 18.3	Replaces the definition of ‘Relevant ethical requirements’ to refer to ‘the Code’ (see Aus 18.1 above). The definition also includes specific reference to the requirements of Chapter 2M of the <i>Corporations Act 2001</i> .
Aus 18.4	Explains the different terms used in the <i>Corporations Act 2001</i> and AUASB Standards.
Aus 42.1 and Aus 42.2	These paragraphs prohibit the use of internal auditors to provide direct assistance in a sustainability assurance engagement.
Aus A29.1	Prohibits the use of internal auditors to provide direct assistance in a sustainability assurance engagement.
Throughout	Replaced ‘the IESBA Code’ with ‘the Code’ (see also Aus 18.1 above).
A61	Amended to clarify that the provisions referred to in the third sentence may apply in the context of an audit of the financial report rather than assurance over sustainability information given that the current APES 110 applies instead of Part 5 of the IESBA Code.
Appendix 3	The illustrative assurance reports have been amended consistent with the definition of ‘the Code’ in paragraph Aus 18.1.

...

Except for applying the provisions of existing APES 110 instead of Part 5 of the IESBA Code (until such time as ASSA 5000 may be further amended to apply the provisions of a revised APES 110 that may include Part 5 of the IESBA Code), eCompliance with this Standard on Sustainability Assurance enables compliance with ISSA 5000.

7. Paragraph Aus 6.1(a) is amended to read as follows:

The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the applicable requirements of the Code APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional & Ethical Standards Board Limited (November 2018 incorporating all amendments to June 2024) and applicable legislative or other requirements, or professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A6–A7)

8. Paragraph Aus 18.1 is replaced with the following:

The definition of ‘the Code’ refers to the following applicable version of APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional & Ethical Standards Board Limited in November 2018 (APES 110):

- (a) APES 110 incorporating all amendments to June 2024 for:
- (i) Information presented in a sustainability report under Chapter 2M of the Corporations Act 2001 - For periods beginning 1 January 2025 to 31 December 2025 and as at the end of that period;
 - (ii) All other engagements - As at 31 December 2025 and for periods ending on that date, except where the period commenced before 1 January 2025;
- (b) APES 110 incorporating all amendments to July 2025 for:
- (i) Information presented in a sustainability report under Chapter 2M of the Corporations Act 2001 - For periods beginning on or after 1 January 2026 and as at the end of that period;
 - (ii) For all other engagements - As at a specific date on or after 1 January 2026 and for periods ending on that date, except where the period commenced before 1 January 2025,
- except that any later effective dates and any transitional provisions in APES 110 continue to apply. Early adoption is permitted and encouraged.
9. Amend the first part of the third sentence of application paragraph A61 as follows:
- The Code ~~may specifically~~ addresses various matters that may affect or influence the practitioner's independence ~~where the practitioner also audits or reviews an entity's financial report,~~ including:
- ...
10. In Illustration 1 in Appendix 3: Illustrations of Assurance Reports on Sustainability information in Appendix 3 of ASSA 5000 replace the third paragraph under the heading ***Basis for Opinion*** with:
- We are independent of the Company in accordance with the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (November 2018 incorporating all amendments to *[insert 'June 2024' or 'July 2025', as applicable]* ~~June 2024~~) (the Code), as applicable to sustainability assurance engagements of public interest entities, together with the ethical requirements that are relevant to assurance engagements of public interest entities in *[title/identification of requirements, name of appropriate authority and jurisdiction]*. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the Code.
11. In Illustration 2 in Appendix 3: Illustrations of Assurance Reports on Sustainability information in Appendix 3 of ASSA 5000 replace the third paragraph under the heading ***Basis for Opinion*** with:
- We are independent of the Company in accordance with the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (November 2018 incorporating all amendments to *[insert June 2024 or July 2025, as applicable]* ~~June 2024~~) (the Code), together with the ethical requirements in *[title/identification of requirements, name of appropriate authority and jurisdiction]*. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

12. In Illustration 3 in Appendix 3: Illustrations of Assurance Reports on Sustainability information in Appendix 3 of ASSA 5000 amend the fourth paragraph under the heading ***Basis for Reasonable Assurance Opinion and/or Limited Assurance Conclusion*** as follows:

We are independent of the Company in accordance with the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (November 2018 incorporating all amendments to insert 'June 2024' or 'July 2025', as applicable~~June 2024~~) (the Code), together with the ethical requirements that are relevant to our assurance engagement of the Information RA and Information LA in [title/identification of requirements, name of appropriate authority and jurisdiction], and we have fulfilled our other responsibilities in accordance with these requirements and the Code.

13. In Illustration 4 in Appendix 3: Illustrations of Assurance Reports on Sustainability information in Appendix 3 of ASSA 5000 amend the fifth paragraph under the heading ***Basis for Qualified Conclusion*** as follows:

We are independent of the Company in accordance with the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board Limited (November 2018 incorporating all amendments to insert 'June 2024' or 'July 2025', as applicable~~June 2024~~) (the Code), together with the ethical requirements that are relevant to our assurance engagements of the Sustainability Information in [title/identification of requirements, name of appropriate authority and jurisdiction]. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

Amendments to ASA 102

14. Existing paragraph 5(d) is amended to read as follows:

Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) (November 2018 incorporating all amendments to ~~January~~July 2025), the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

AUASB 2025-7
(July 2025)

Explanatory Statement

AUASB 2025-7 Amendments to AUASB Standards

Issued by the **Auditing and Assurance Standards Board**

Draft



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board website:
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Draft

Reasons for Issuing Auditing Standard AUASB 2025-7

The AUASB issues AUASB 2025-7 *Amendments to AUASB Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Purpose of Standard AUASB 2025-7 Amendments to AUASB Standards

The purpose of the Standard is to make amendments to the following AUASB Standards:

- ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (issued 28 January 2025 and amended to 23 May 2025)
- ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (issued 16 December 2024 and amended to XX July 2025)

Main Features

The amendments to ASSA 5000 and ASA 102 arise from changes made by the Accounting Professional & Ethical Standards Board Limited (APESB) to *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* in relation to the use of external experts and sustainability assurance.

Operative Date

AUASB 2025-7 *Amendments to AUASB Standards* is operative in accordance with the operative dates of ASSA 5000 and ASA 102, except that any later effective dates and any transitional provisions in the revised APES 110 apply. The effective dates of the changes to APES 110 covered by AUASB 2025-7 are all after the date of issuing AUASB 2025-7.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Standard

AUASB 2025-7 does not require public exposure as the amendments to adopt the revised APES 110. The revisions to APES 110 were subject to public exposure by the APESB and the International Ethics Standards Board for Accountants. APES 110 already applies to all members of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants. Those members include almost all registered company auditors to whom the revised ASA 102 applies are sufficiently narrow in scope.

Impact Analysis

A Preliminary Assessment form has been prepared in connection with the preparation of AUASB 2025-7 and lodged with the Office of Impact Analysis (OIA). The OIA advised that an Impact Analysis is not required in relation to this standard.

Exemption from Sunsetting

Auditing Standards promulgated by the AUASB that are legislative instruments are exempt from the sunseting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. The AUASB's Standards are exempt from sunseting because a more stringent review process than sunseting applies to the Standards. This review process ensures Australia's Auditing Standards regime remains consistent with international standards. Typically, the AUASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AUASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunseting regime would have very limited practical application to AUASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Standard AUASB 2025-7 Amendments to AUASB Standards**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard AUASB 2025-7

The purpose of AUASB 2025-7 is to make amendments to the following AUASB Standards:

- ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (issued 28 January 2025 and amended to 23 May 2025)
- ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (issued 16 December 2024 and amended to XX July 2025)

Main Features

The amendments to ASSA 5000 and ASA 102 arise from changes made by the Accounting Professional & Ethical Standards Board Limited to *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* in relation to the use of external experts and sustainability assurance.

Human Rights Implications

AUASB 2025-7 was issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standard does not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues..

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.



AUASB Agenda Paper

Title:	Possible amendments to ASSA 5010 on sustainability assurance phasing	Date:	9 July 2025
Office of AUASB Staff:	Anne Waters / See Wen Ewe	Agenda Item:	7.0

Objective of Agenda Item:

- The objective of this Agenda Item is to consider whether to expose the following possible amendments to ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001 (ASSA 5010):
 - To clarify whether the Directors' Declaration in the Sustainability report should be covered by the auditor's report during a transitional period where the directors' opinion is only required to state that the directors took 'reasonable steps' to ensure that the sustainability report is in accordance with the *Corporations Act 2001* (the Act).
 - To apply the phasing in of assurance early where an entity elects to be subject to the sustainability reporting requirements of the Act early under the proposed Treasury Laws Amendment Bill 2025: Miscellaneous and technical amendments (Autumn 2025) (the proposed Bill).

Questions for AUASB members

No.	Question for AUASB members
1	Do AUASB members agree that an exposure draft should be prepared for consideration by the Board proposing amendments to ASSA 5010 to clarify that the auditor is required to cover the Sustainability Directors' Declaration for years commencing on or after 1 January 2028? (See paragraphs 2 to 8 below).
2	Do AUASB members agree that an exposure draft should be prepared for consideration by the Board proposing amendments to ASSA 5010 to clarify that the auditor is not required to cover the Sustainability Directors' Declaration for years commencing on or before 31 December 2027 when that declaration can be modified to say that the entity took 'reasonable steps' to ensure compliance with the sustainability reporting requirements? (See paragraphs 2 to 7 and 9 to 11 below).
3	Do AUASB members agree that an exposure draft should be prepared for consideration by the Board after any legislation is introduced into Parliament to amend ASSA 5010 to apply the assurance phasing requirements early where an entity elects to prepare a Sustainability Report that is subject to the Act early? (See paragraphs 12 to 17 below).
4	Subject to any delays with the Bill, do AUASB members agree with preparing a single exposure draft cover the matters in questions 1 to 3 above?

Directors' Declaration

Background

- The Sustainability Report includes the Directors' Declaration thereon (s296A of the Act). ASSA 5010 does not require the auditor's report for Year 1 of reporting for each of Groups 1 to 3 to cover the Directors' Declaration on the Sustainability Report under the Act. This recognises that only select disclosures on governance, risks and opportunities and Scope 1 and 2 emissions are subject to limited assurance. It would be inconsistent to require the auditor's report to cover the directors' opinion on compliance with the reporting requirements for the entire sustainability report.
- In Years 2 and 3, limited assurance is required over all disclosures in the Sustainability Report. For years commencing 1 January 2025 and 31 December 2027, the directors are only required to

provide an opinion that the entity has taken 'reasonable steps' to ensure compliance (s1707C of the Act). Thereafter, the opinion does not refer to 'reasonable steps'.

4. The transitional arrangement in s1707C do not amend the primary requirement for the entity itself to comply with the Act in relation to the Sustainability Report (i.e. the 'reasonable steps' criterion does not apply). However, the modified liability regime applies to the entity and auditor for the three years from 1 January 2025. There is no requirement at any time for a CEO/CFO statement to the directors covering the Sustainability Report.

The issue

5. At its 16 December 2024 meeting, AUASB members were asked whether the auditor should provide limited assurance over the disclosure which refers to 'reasonable steps' by the directors (see paragraphs 39 to 45 of Agenda Paper 5 of the [16 December 2024 board pack](#)). AUASB members agreed with Recommendation 9 in Agenda Paper 5 that there should be no changes to the proposed phasing model in [ED 02/24 Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports Under the Corporations Act 2001](#) in connection with the Directors' Declaration after Year 1. There was no discussion in the paper or at the Board of the matter referred to in paragraph 6(b) below.
6. In an email, a Board member:
 - (a) Questioned whether the requirement in ASSA 5010 for the auditor to cover 'disclosures' in the Sustainability Report includes the opinion in the Directors' Declaration; and
 - (b) Presented the view that providing limited assurance on an opinion by the directors that explicitly refers to the entity taking 'reasonable steps' on compliance with the reporting requirements requires the auditor to identify and assess the steps taken and perform work on the performance of those steps.
7. While we are not aware of similar concerns being raised by other auditors, the AUASB Chair agreed to raise this in a Board paper.

Matters for AUASB Consideration – Years commencing on or after 1 January 2028

8. After the modified Directors' Declaration using the 'reasonable steps' criterion ceases to be available, there is no reason why the Directors' Declaration should not be covered by the auditor's report. It is recommended that a proposed amendment to ASSA 5010 to clarify that the Directors' Declaration is in scope should be exposed. This includes Years 2 and 3 for Group 2 and 3 entities.

Matters for AUASB Consideration – Years commencing on or before 31 December 2027

9. For years commencing on or before 31 December 2027, when the modified Directors' Declaration is available, the question is whether ASSA 5010 should be amended to make it clear that the auditor is or is not required to cover the Sustainability Directors' Declaration. This includes Years 2 and 3 for Group 1 entities).
10. Matters to consider in this regard:

Against the auditor covering the Directors' Declaration	In support of auditor covering the Directors' Declaration
The auditor directly covers compliance with the climate-related disclosures in the Sustainability Report. Covering the opinion in the Directors' Declaration on compliance adds nothing in this regard.	The legislation requires the auditor to cover the Directors' Declaration on an ongoing basis.
Additional effort may be required by the auditor to identify and assess how the directors satisfied themselves that the entity took 'reasonable steps' and to perform work on the performance of those steps by the entity.	Only limited assurance is required. The auditor is required by ASSA 5000 to understand the control environment. The auditor will be conducting a review of all disclosures and therefore will have an understanding of the processes the entity has in place. In forming their review conclusion they will have sufficient evidence as to whether they have reasons to

Against the auditor covering the Directors' Declaration	In support of auditor covering the Directors' Declaration
	believe that the entity has not taken reasonable steps.

11. On balance, it is recommended that an exposure draft be issued proposing that the auditor not be required to cover the Directors' Declaration for years commencing on or before 31 December 2027.

Proposed legislation

Background

12. In January 2025 Treasury released an exposure draft of the proposed Bill, which would extend the modified liability settings for directors and auditors to sustainability reports that an entity elects to prepare under the Act earlier than required (e.g. where Group 2 entity that elects to report on the timeline for a Group 1 entity).
13. We understand that the proposed legislation may be introduced into Parliament in July 2025.
14. To qualify for the modified liability settings, voluntary sustainability reports must comply with the requirements of the Act including any requirement for the Sustainability Report to be audited or reviewed (see proposed s1707DA(4)(b)). Paragraphs 1.26 and 1.28 of the [draft Explanatory Memorandum](#) to the draft Bill indicate that the audit/review requirements are expected to apply.
15. ASSA 5010 specifically defines the years of assurance over information in Sustainability Report by reference to specific dates. For example, Year 1 with limited assurance over specified disclosures applies to Group 2 entities for years commencing 1 July 2026 to 30 June 2027. There is no assurance requirement for a Group 2 entity that elects to report for a year commencing before 1 July 2026.

Next steps

16. Subject to AUASB member responses to the questions above, a draft exposure draft will be provided to AUASB members for consideration after proposed legislation is introduced into Parliament. The exposure draft would propose amendments to ASSA 5010 to apply the assurance phasing requirements early where an entity elects to prepare a Sustainability Report under the Act early.



AUASB Agenda Paper

Title: IAASB's *Proposed Narrow-Scope Amendments relating to Using the Work of an External Expert* **Date:** 9 July 2025

Office of the AUASB: See Wen Ewe

Agenda Item: 8.0

Objective of this Agenda Paper

1. The objective of this Agenda Item is to seek feedback from AUASB members on a draft AUASB submission on the IAASB's [Exposure Draft on Proposed Narrow-Scope Amendments to IAASB Standards Arising from the IESBA's Using the Work of an External Expert Project](#) (IAASB ED).

Question for the AUASB members

No.	Question
1	Do AUASB members have any comments on the draft submission to the IAASB in Agenda Paper 8.1?

Background and Matters for Consideration

2. The IAASB ED was issued in April 2025. Submissions to the IAASB are due by 24 July 2025.
3. The IAASB ED proposes targeted narrow-scope amendments to IAASB standards to refer to the IESBA Code as revised under the IESBA Using the Work of an External Expert Project. The amendments would be made in those IAASB standards that deal with using the work of an external expert. Other than minor amendments to application paragraphs, the only proposed change is to add a new subparagraph 8(f) to ISA 620 *Using the Work of an Auditor's Expert* requiring the auditor to consider provisions of relevant ethical requirements relating to using the work of an expert.
4. In May 2025, the AUASB approved a 'wrap-around' of the IAASB ED (see [Consultation Paper: IAASB's Proposed Narrow-Scope Amendments to IAASB Standards Arising from the IESBA's Using the Work of an External Expert Project](#)) out-of-session. The AUASB comment period closes on 7 July 2025.
5. As the amendments are narrow scope in nature and make no significant changes to the affected standards, the Office of the AUASB did not conduct any formal outreach sessions. Australian stakeholders were encouraged to respond to the Consultation Paper through AUASB website news alerts and social media channels.
6. The Office of the AUASB has not received any submissions or feedback from Australian stakeholders. The submission to the IAASB uses the IAASB's template (see Agenda Paper 8.1). The draft submission is supportive of the IAASB proposals.

Next steps

7. If submissions to the AUASB consultation paper raise concerns with the proposed amendments, the Office of the AUASB will revert to AUASB members before any submission is provided to the IAASB. Otherwise, the submission will be settled by the Chair.

RESPONSE TEMPLATE FOR THE ED OF PROPOSED NARROW-SCOPE AMENDMENTS TO IAASB STANDARDS ARISING FROM THE IESBA'S USING THE WORK OF AN EXTERNAL EXPERT PROJECT

Guide for Respondents

Comments are requested by **July 24, 2025**.

This template is for providing comments on the Exposure Draft (ED) of proposed Narrow-Scope Amendments to International Auditing and Assurance Standards Board® (IAASB®) Standards Arising from the International Ethics Standards Board for Accountants' (IESBA) Using the Work of an External Expert project, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the “**Submit Comment**” button on the ED [web page](#) to upload the completed template.

Responses to IAASB's Request for Comments in the EM for the ED, Proposed Narrow-Scope Amendments to IAASB Standards Arising from the IESBA's Using the Work of an External Expert Project

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	AUASB
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Doug Niven – AUASB Chair
Name(s) of contact(s) for this submission (or leave blank if the same as above)	See Wen Ewe
E-mail address(es) of contact(s)	sewe@auasb.gov.au
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Asia Pacific
	If "Other", please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Jurisdictional standard setter
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to the ED).

Information, if any, not already included in responding to the questions in Parts B and C:

This submission clearly identifies where the views are those of the AUASB, which may be informed by feedback from Australia practitioners. This submission also outlines feedback from Australia practitioners that is not necessarily the view of the AUASB.

PART B: Responses to Questions in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Overall Question

Public Interest Responsiveness

1. Do you agree that the proposed narrow-scope amendments are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting actions in the project proposal? If not, why not?

(See EM, Section 1-A)

Overall response: Agree (with no further comments)

Detailed comments (if any):

Specific Questions

Proposed Narrow-Scope Amendments to ISA 620¹

2. Do you agree that the proposed narrow-scope amendments to ISA 620 are appropriate to maintain interoperability with the new provisions in the Code related to using the work of an external expert?

(See EM, Section 1-C)

Overall response: Agree (with no further comments)

Detailed comments (if any):

If you do not agree, what alternatives do you suggest (please identify the specific paragraphs and be specific as to why you believe the proposals are not appropriate, and why you believe your alternatives would be more appropriate)?

Detailed comments (if any):

¹ International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*

Proposed Narrow-Scope Amendments to ISRE 2400 (Revised),² ISAE 3000 (Revised)³ and ISRS 4400 (Revised)⁴

3.1 Do you agree that the proposed narrow-scope amendments to ISRE 2400 (Revised) are consistent with the proposed amendments to ISA 620, and are appropriate to maintain interoperability with the new provisions in the Code related to using the work of an external expert?

(See EM, Section 1-D)

Overall response: Agree (with no further comments)

Detailed comments (if any):

If you do not agree, what alternatives do you suggest (please identify the specific paragraphs and be specific as to why you believe the proposals are not appropriate, and why you believe your alternatives would be more appropriate)?

Detailed comments (if any):

3.2 Do you agree that the proposed narrow-scope amendments to ISAE 3000 (Revised) are consistent with the proposed amendments to ISA 620, and are appropriate to maintain interoperability with the new provisions in the Code related to using the work of an external expert?

(See EM, Section 1-E)

Overall response: Agree (with no further comments)

Detailed comments (if any):

If you do not agree, what alternatives do you suggest (please identify the specific paragraphs and be specific as to why you believe the proposals are not appropriate, and why you believe your alternatives would be more appropriate)?

² International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

³ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁴ International Standards on Related Services (ISRS) 4400 (Revised), *Agreed-upon Procedures Engagements*

Detailed comments (if any):

3.3 Do you agree that the proposed narrow-scope amendments to ISRS 4400 (Revised) are consistent with the proposed amendments to ISA 620, and are appropriate to maintain interoperability with the new provisions in the Code related to using the work of an external expert?

(See EM, Section 1-F)

Overall response: Agree (with no further comments)

Detailed comments (if any):

If you do not agree, what alternatives do you suggest (please identify the specific paragraphs and be specific as to why you believe the proposals are not appropriate, and why you believe your alternatives would be more appropriate)?

Detailed comments (if any):

Other Matters

4. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the standard(s), and the specific requirement(s) or application material, to which your comment(s) relate.

Overall response: No other matters to raise

Detailed comments (if any):

Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

5. Translations—Recognizing that many respondents may intend to translate the final narrow-scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

Overall response: No response

Detailed comments (if any):

6. Effective Date—Given the public interest benefit of aligning the effective date of these proposed narrow-scope amendments with the effective date of the revised Code provisions related to using the work of an external expert, the IAASB believes that an appropriate implementation period would be approximately 12 months after the PIOB's process of certification of the final narrow-scope amendments. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow-scope amendments.

(See EM, Section 1-G)

Overall response: No response

Detailed comments (if any):



AUASB Agenda Paper

Title:	Revised ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i>	Date:	9 July 2025
Office of AUASB:	See Wen Ewe	Agenda Item:	9.0

Objective of Agenda Item:

1. The objective of this Agenda Item is to seek Board's in-principle approval to issue:
 - (a) the revised ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*;
 - (b) AUASB 2025-6 *Amendments to Australian Auditing Standards*;
 - (c) the related Explanatory Statement; and
 - (d) confirming amendments to other AUASB standards not covered by AUASB 2025-6,subject to PIOB certification of the equivalent IAASB standards and resolution of the matter referred to in paragraphs 14-17 of this paper.

Questions for AUASB members

No.	Questions for AUASB members
1	Do AUASB members agree with the Australian-specific amendments to the revised ISA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> outlined in paragraphs 4 to 6 of this paper?
2	Subject to: <ol style="list-style-type: none">(i) PIOB approval of the equivalent IAASB standards;(ii) Any changes required by the PIOB;(iii) The matter referred to in paragraphs 14-17 of this paper being resolved; and(iv) Any editorials that may be identified from further quality review, do AUASB members approve in-principle the following documents for issue: <ol style="list-style-type: none">(a) Draft ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (Agenda Paper 9.1);(b) Draft AUASB 2025-6 <i>Amendments to Australian Auditing Standards</i> (Agenda Paper 9.3);(c) Explanatory Statement to ASA 240 and AUASB 2025-6 (Agenda Paper 9.4); and(d) Conforming Amendments to Other AUASB Standards (Agenda Paper 9.5)?
	Do AUASB members agree that the final ISA 240 should not be re-exposed in Australia (paragraphs 11-12)?
4	Do AUASB members have any comments on the draft ASA 240 Basis for Conclusions (Agenda Paper 9.6)?

Background and Previous Discussions on Topic

2. At the 11 March 2025 AUASB meeting, the AUASB discussed the [revised ISA 240](#) which was then subsequently approved by the IAASB at its March 2025 meeting. At the time of writing this paper, the revised ISA 240 is subject to PIOB certification, expected early July 2025.
3. At the 11 March 2025 AUASB meeting, the AUASB agreed in-principle to adopt revised ISA 240 with no substantive changes, subject to seeing the Australian version of the ISA 240, the conforming and consequential amendments to other AUASB standards, and draft explanatory statement (see [Agenda Item 4.3 of 11 March 2025 meeting board pack](#) and [minutes of 11 March 2025 meeting](#) for more details).

Matters for AUASB Consideration

A. Australian-specific paragraphs/amendments

4. As agreed at the 11 March 2025 AUASB meeting (see also paragraph 11 of [Agenda Item 4.3 of 11 March 2025 meeting board pack](#)), similar to extant ISA 240, the revised ISA 240 includes:
 - (a) Paragraph Aus A62.1 on *Corporations Act 2001* (the Act) whistleblower provisions from extant ISA 240 is retained in the revised ISA 240 as Aus A195.1.
 - (b) Paragraph Aus A67.1 on the auditor's obligation to report certain matters to ASIC under the Act from extant ISA 240 is retained in the revised ISA 240 as Aus A202.1.
5. Extant ISA 240 also contains paragraph Aus A57.1 to remind auditors that the possibility of withdrawing from the engagement or resigning from the appointment as auditor under the *Corporations Act 2001* may require consent to resign from the Australian Securities and Investments Commission. This has been included in the revised ISA 240 as Aus A175.1.
6. Other non-substantive changes have been made to draft ISA 240 as part of the process of "Australianising" ISA 240 (Revised 2025). Such changes include terminology and spelling changes. These are marked up for AUASB's ease of reference (see Agenda Paper 9.2).

B. Conforming amendments

7. The IAASB also approved the [conforming and consequential amendments to other ISAs](#) at its March 2025 meeting. The Australian equivalents of these ISAs (ASAs) are made under section 336 of the *Corporations Act 2001*, except the following:
 - (a) ASA 805 *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
 - (b) ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.
8. As the ASAs (other than ASA 805) are legislative instruments, they can only be amended by another legislative instrument. See Agenda Paper 9.4 for the draft amending standard AUASB 2025-6. Amendments to ASA 805 and ASRE 2400 are presented in a table format in Agenda Paper 9.5.

C. Basis for Conclusions

9. In accordance with the AUASB's [Due Process Framework for Developing, Issuing, and Maintaining AUASB Pronouncements and Other Publications](#), a Basis for Conclusions (see Agenda Paper 9.6) has been prepared detailing how decisions were reached on revised ISA 240, including:
 - (a) How comments raised in the AUASB's submission on the IAASB's exposure draft of the proposed ISA 240 were addressed by the IAASB (this section is consistent with paragraph 9 of [Agenda Item 4.3 of 11 March 2025 meeting board pack](#));
 - (b) Referring to the IAASB's Basis for Conclusions which outlines how the IAASB responded to comments received in submissions on its exposure draft of the proposed ISA 240; and
 - (c) Explain the reasons for the Australian-specific amendments to ISA 240 (see also paragraphs 4 and 5 above).
10. While the Due Process Framework does not require the AUASB to approve the Basis for Conclusions, AUASB member feedback is welcomed. Note that the table in the Appendix to the Basis for Conclusions on IAASB responses to matters raised by the AUASB is identical to the table in [Agenda Item 4.3 of 11 March 2025 meeting board pack](#).

D. Re-exposure of ISA 240

11. The [AUASB Due Process Framework](#) contains criteria for re-exposure of standards. The criteria and how they apply for the final ISA 240 are summarised in the table below.

AUASB Agenda Paper

Paragraph reference	Criterion	Comments	Supports re-exposure?
72(a), 73	The nature and extent of changes to the original proposals in the ED, and whether the substance of the proposed standard has changed. See also paragraph 73 below.	<p>In relation to these criteria:</p> <ul style="list-style-type: none"> The objectives of the project as outlined in paragraph 3 of the Basis for Conclusions (see Agenda Paper 9.6) have not changed. The changes proposed to requirements and recommended practices since the ISA 240 ED are not so significant as to cause a major change in practice. See Agenda Item 4.3 of 11 March 2025 meeting board pack regarding the changes. 	No
73	<p>To determine whether proposed standard changed substantially from the ED, the Board considers whether the objectives of the project have changed or if significant new requirements or recommended practices, that would cause a major change in practice, have been introduced. Additionally:</p> <ul style="list-style-type: none"> a) changes impacting on potential compelling reasons modifications to international standards adopted in Australia, are generally considered to be significant changes; b) where key elements of the exposed standard have been modified in response to comments received on exposure to clarify and enhance understanding, re-exposure is generally not required as long as the Board considers the key elements of the ED have been retained; c) matters relating to the structure or presentation of a standard will typically not warrant re-exposure. <p>The more extensive and/or fundamental the changes to the original ED and current practice are, the more likely it is that the revisions to the ED will have a significant impact on Australian stakeholders and that the proposals therefore should be exposed for a second time.</p>	<ul style="list-style-type: none"> The key elements of the ED have been retained. Respondents to the February 2024 AUASB Consultation Paper Exposure of the IAASB's Proposed ISA 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements; and Proposed Conforming and Consequential Amendments to Other ISAs overall supported for ISA 240 to be adopted in Australia. There was no significant feedback that impacted potential compelling reasons modifications to ISA 240. All of the areas of change proposed by the IAASB were public at the time of the AUASB Consultation Paper. 	No
72(b)	The nature and extent of new substantive issues not considered during the initial consultation;	See above.	No
72(c)	For international equivalent standards, whether there are unique factors in Australia driving re-exposure (ensuring that any re-exposure does not conflict	None.	No

Paragraph reference	Criterion	Comments	Supports re-exposure?
	with the AUASB's policy of convergence to international standards).		
72(e)	The nature and extent of input from stakeholders and whether: i. further consultation with those stakeholders is required; or ii. additional consultation is necessary with key stakeholders who have not had the opportunity to provide feedback on the proposed standard	None.	No
72(d)	Whether any persuasive or significant new evidence has been identified which may impact recommended changes to the proposed standard.	We are not aware of any such evidence.	No
74	The impact of delaying implementation due to re-exposure against the relative urgency and importance of any additional changes to a proposed standard. The Board considers the additional steps it has taken to consult with stakeholders since issuing the ED and whether using committees or targeted consultation could provide the Board with information to support a decision to finalise a revised draft without re-exposure. The Board considers whether any implementation support, for example, the issuance of additional non-authoritative implementation guidance material or staff FAQs would address concerns.	Not applicable.	No

12. Having regard to the above, it is recommended that ISA 240 is not re-exposed in Australia.
13. The Office of Impact Analysis has advised that an Impact Analysis is not required in relation to ASA 240 and ASA 2025-6.
- E. Terminology differences between IAASB standards and AUASB standards**
14. As part of the process of "Australianising" ISA 240 (Revised 2025), "inquire" has been replaced with "enquire". Similar changes have been made in Australianising all other AUASB standards.
15. The IAASB uses "inquire" throughout the entire suite of IAASB standards. The IAASB uses US English which does not have the word "enquire".
16. Since pre-clarity, the AUASB has used "enquire" throughout the suite of AUASB Standards. This is consistent with NZAuASB Standards. Other standard setters that follow UK English including the UK Financial Reporting Council, the Canadian Auditing Standards Board, the Irish Auditing & Accounting Supervisory Authority, the Institute of Chartered Accountants of India and the Institute of Singapore Chartered Accountants use "inquire".
17. Under UK English, "enquire" is used for less formal questions where "inquire" is more commonly used in formal or official investigations (as is the dictionary definitions / usage of the terms). It is unclear whether the different term could result in any unintended consequences. The Office of the AUASB will seek to further understand the basis of the AUASB's historical use of "enquire", the use of "inquire" by other standard setters that use UK English, and possible consequences of using "enquire" versus "inquire". The matter will be brought to the September 2025 AUASB meeting.
18. A final vote on issuing a revised ASA 240 will be made after this terminology matter is resolved.

NZ developments

19. The NZAuASB decided in-principle at its April 2025 meeting to adopt the revised ISA 240. Pending PIOB certification, a NZ version of the standard is expected to be presented at the August 2025 NZAuASB meeting for approval.

Next steps

20. The Office of the AUASB will compare the PIOB certified final version of ISA 240 (Revised 2025) and the conforming and consequential amendments to the versions in Agenda Papers 9.1, 9.3 and 9.5. Any significant changes will be brought to the attention of the AUASB before any standard or amending standard is issued in Australia.
21. The Office of the AUASB will also perform a further quality review of the documents for editorials.

Materials presented

Agenda paper	Description
9.1	Draft ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (Clean version)
9.2	Draft ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (Marked-up from ISA 240 (Revised 2025))
9.3	Draft AUASB 2025-6 <i>Amendments to Australian Auditing Standards</i>
9.4	Draft explanatory statement - ASA 240 and AUASB 2025-6
9.5	Draft conforming amendments to other AUASB standards
9.6	Draft basis for conclusions - ASA 240 and AUASB 2025-6

ASA 240
(July 2025)

Auditing Standard ASA 240

The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

Issued by the Auditing and Assurance Standards Board

Draft



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ASA 240

The AUASB issues Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard represents the Australian equivalent of ISA 240 (Revised 2025), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and will replace the current ASA 240 issued by the AUASB in October 2009 (as amended to 27 April 2022).

This Auditing Standard contains differences from the ISA 240 (Revised 2025), which have been made in the Application and Other Explanatory Material and Appendices to reflect Australian regulatory requirements.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

D Niven
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 240 (Revised 2025), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

The following application and other explanatory material is additional to ISA 240:

- For an audit engagement under the *Corporations Act 2001* (the Act), resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain circumstances, obtaining consent to resign from the Australian Securities and Investments Commission (ASIC). (Ref: Para. Aus A175.1).
- Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a person regarding contraventions or possible contraventions of the law. In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or those charged with governance in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement. (Ref: Para. Aus A195.1).
- An auditor is required by the *Corporations Act 2001* to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances. (Ref: Para. Aus A202.1).

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 240 (Revised 2025).

AUDITING STANDARD ASA 240

The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods beginning on or after 15 December 2026.

Introduction

Scope of this Auditing Standard

1. This Australian Standard on Auditing (ASA) deals with the auditor's responsibilities relating to fraud in an audit of a financial report and the implications for the auditor's report. The requirements and guidance in this ASA refer to, or expand on, the application of other relevant ASAs, in particular ASA 200,¹ ASA 220,² ASA 315,³ ASA 330,⁴ and ASA 701.⁵ Accordingly, this ASA is intended to be applied in conjunction with other relevant ASAs.

Responsibilities of the Auditor, Management and Those Charged with Governance

Responsibilities of the Auditor

2. The auditor's responsibilities relating to fraud when conducting an audit in accordance with this ASA, and other relevant ASAs, are to: (Ref: Para. A1)
 - (a) Plan and perform the audit to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement due to fraud. These responsibilities include identifying and assessing risks of material misstatement in the financial report due to fraud and designing and implementing responses to address those assessed risks.
 - (b) Communicate and report about matters related to fraud.

Responsibilities of Management and Those Charged with Governance

3. The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity. It is important that

¹ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

² See ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

³ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

⁴ See ASA 330 *The Auditor's Responses to Assessed Risks*.

⁵ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating and maintaining a culture of honesty and ethical behaviour that can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings in order to influence the perceptions of financial report users regarding the entity's performance.

Key Concepts in this ASA*Characteristics of Fraud*

4. Misstatements in the financial report can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial report is intentional or unintentional.
5. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. (Ref: Para. A2–A6)

Fraud or Suspected Fraud

6. Although fraud is a broad legal concept, for the purposes of the ASAs, the auditor is concerned with a material misstatement of the financial report due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ASA, the auditor does not make legal determinations of whether fraud has actually occurred.
7. The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with this and other ASAs. Suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit. (Ref: Para. A7–A10 and A27)
8. The auditor's determination of whether a fraud or suspected fraud is material to the financial report involves the exercise of professional judgement. For identified misstatement(s) due to fraud, this includes consideration of the nature of the circumstances giving rise to the fraud. Judgements about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)

Inherent Limitations

9. While the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance.⁶
10. Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial report may not be detected, even though the audit is properly planned and performed in accordance with the ASAs.⁷ However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.⁸ (Ref: Para. A12)
11. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a

⁶ See ASA 200, paragraph 5.

⁷ See ASA 200, paragraphs A53–A54.

⁸ See ASA 200, paragraph A54.

position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.

Professional Scepticism and Professional Judgement

12. In accordance with ASA 200,⁹ the auditor is required to plan and perform the audit with professional scepticism and to exercise professional judgement. The auditor is required by this ASA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional scepticism throughout the audit, considering the potential for management override of controls, and recognising that audit procedures that are effective for detecting error may not be effective in detecting fraud.
13. Professional judgement is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. (Ref: Para. A13–A14)

Non-Compliance with Laws and Regulations

14. For the purposes of this and other relevant ASAs, fraud ordinarily constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor also has responsibilities in accordance with ASA 250.¹⁰ (Ref: Para. A15–A16)

Relationship with Other ASAs

15. Some ASAs that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. In these instances, the other ASAs expand on how this ASA is applied. (Ref: Para. A17)

Effective Date

16. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

17. The objectives of the auditor are:
 - (a) To identify and assess the risks of material misstatement of the financial report due to fraud;
 - (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses;
 - (c) To respond appropriately to fraud or suspected fraud identified during the audit; and
 - (d) To report in accordance with this ASA.

Definitions

18. For purposes of the ASAs, the following terms have the meanings attributed below:

⁹ See ASA 200, paragraphs 15–16.

¹⁰ See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

- (a) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A18–A22)
- (b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, or an attitude or rationalisation that justifies the fraudulent action. (Ref: Para. A23–A25)

Requirements

Professional Scepticism

- 19. In applying ASA 200,¹¹ the auditor shall maintain professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist. (Ref: Para. A26)
- 20. The auditor shall remain alert throughout the audit for information that indicates that one or more fraud risk factors are present and circumstances that may be indicative of fraud or suspected fraud. (Ref: Para. A27–A31)
- 21. Where responses to enquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity are inconsistent, the auditor shall investigate the inconsistencies. (Ref: Para. A32)
- 22. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A33–A36)

Engagement Resources

- 23. In applying ASA 220,¹² the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time and appropriate specialised skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained. (Ref: Para. A37–A41)

Engagement Performance

- 24. In applying ASA 220,¹³ the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the audit engagement, considering matters identified during the course of the audit engagement, including: (Ref: Para. A42)
 - (a) Fraud risk factors;
 - (b) Fraud or suspected fraud; and
 - (c) Control deficiencies related to the prevention or detection of fraud.

Ongoing Nature of Communications with Management and Those Charged with Governance

- 25. The auditor shall communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement. (Ref: Para. A43–A47)

¹¹ See ASA 200, paragraph 15.

¹² See ASA 220, paragraphs 25–28.

¹³ See ASA 220, paragraph 30(b).

Risk Assessment Procedures and Related Activities

26. In applying ASA 315,¹⁴ the auditor shall perform the procedures in paragraphs 27–38. In doing so, the auditor shall consider whether one or more fraud risk factors are present. (Ref: Para. A48)

Information from Other Sources

27. In applying ASA 315,¹⁵ the auditor shall consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present. (Ref: Para. A49–A50)

Retrospective Review of the Outcome of Previous Accounting Estimates

28. In applying ASA 540,¹⁶ the auditor shall perform a retrospective review of management judgements and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. (Ref: Para. A51)

Engagement Team Discussion

29. In applying ASA 315,¹⁷ when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's financial report may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include: (Ref: Para. A42, A52–A53 and A58)
- (a) An exchange of ideas about:
 - (i) The entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance; (Ref: Para. A54)
 - (ii) Fraud risk factors, including: (Ref: Para. A55–A56)
 - a. Incentives or pressures on management, those charged with governance, or employees to commit fraud;
 - b. How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and
 - c. How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties.
 - (iii) Which types of revenue, revenue transactions or relevant assertions may give rise to the risks of material misstatement due to fraud in revenue recognition; and
 - (iv) How management may be able to override controls. (Ref: Para. A57)

¹⁴ See ASA 315, paragraphs 13–26.

¹⁵ See ASA 315, paragraphs 15–16.

¹⁶ See ASA 540 *Auditing Accounting Estimates and Related Disclosures*, paragraph 14.

¹⁷ See ASA 315, paragraphs 17 and A42–A43.

- (b) A consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years.

Analytical Procedures Performed and Unusual or Unexpected Relationships Identified

- 30. The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud. (Ref: Para. A59)

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

Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework

- 31. In applying ASA 315,¹⁸ based on the auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's accounting policies, the auditor shall obtain an understanding of matters that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. (Ref: Para. A60–A69)

Understanding the Components of the Entity's System of Internal Control

Control Environment

- 32. In applying ASA 315,¹⁹ the auditor shall:

- (a) Obtain an understanding of:
 - (i) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical behaviour with respect to the prevention and detection of fraud. (Ref: Para. A70–A71)
 - (ii) The entity's whistleblower program (or other program to report fraud), if the entity has such a program, including how management and, if applicable, those charged with governance address allegations of fraud made through the program. (Ref: Para. A72–A74)
 - (iii) How those charged with governance exercise oversight of management's processes for identifying and responding to the fraud risks and the controls that management has established to address these risks. (Ref: Para. A75–A78)
- (b) Make enquiries of management regarding management's communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- (c) Make enquiries of those charged with governance about: (Ref: Para. A79–A81)
 - (i) Whether they have knowledge of any fraud or suspected fraud including allegations of fraud, including those received from tips or complaints, affecting the entity, and if so, how they have responded to such matters;
 - (ii) Their views about whether and how the financial report may be materially misstated due to fraud, including their views on possible areas that are

¹⁸ See ASA 315, paragraph 19.

¹⁹ See ASA 315, paragraph 21.

- susceptible to misstatement due to management bias or management fraud; and
- (iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.

The Entity's Risk Assessment Process

33. In applying ASA 315,²⁰ the auditor shall:

- (a) Obtain an understanding of how the entity's risk assessment process: (Ref: Para. A82–A90, A106)
 - (i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures for which risks of fraud exist;
 - (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and
 - (iii) Addresses the assessed fraud risks.
- (b) Make enquiries of management and of other appropriate individuals within the entity about: (Ref: Para. A91–A94)
 - (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and
 - (ii) Their views about whether and how the financial report may be materially misstated due to fraud.

The Entity's Process to Monitor the System of Internal Control

34. In applying ASA 315,²¹ the auditor shall:

- (a) Obtain an understanding of:
 - (i) Aspects of the entity's process to monitor the system of internal control that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies identified; and (Ref: Para. A95)
 - (ii) If the entity has an internal audit function, the internal audit function's objectives in respect of monitoring controls over risks of fraud.
- (b) If the entity has an internal audit function, make enquiries of appropriate individuals within the internal audit function about whether: (Ref: Para. A96–A97)
 - (i) They have performed any procedures in respect of monitoring controls over risks of fraud during the period;
 - (ii) They have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity and to obtain their views about the risks of fraud; and

²⁰ See ASA 315, paragraph 22.

²¹ See ASA 315, paragraph 24.

- (iii) They are aware of deficiencies in the system of internal control related to the prevention and detection of fraud.

The Information System and Communication

35. In applying ASA 315,²² the auditor's understanding of the entity's information system and communication relevant to the preparation of the financial report shall include understanding how journal entries and other adjustments are initiated, processed, recorded, and corrected as necessary. (Ref: Para. A98–A100)

Control Activities

36. In applying ASA 315,²³ the auditor's understanding of the entity's control activities shall include identifying controls that address risks of material misstatement due to fraud at the assertion level, including controls over journal entries and other adjustments, designed to prevent or detect fraud. (Ref: Para. A101–A106)

Control Deficiencies Within the Entity's System of Internal Control

37. In applying ASA 315,²⁴ based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud. (Ref: Para. A107–A108)

Evaluation of Fraud Risk Factors

38. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present. (Ref: Para. A23–A25 and A109–A111)

Identifying and Assessing the Risks of Material Misstatement due to Fraud

39. In applying ASA 315,²⁵ the auditor shall:
- (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial report level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A112–A113, A114)
 - (b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such significant risks, evaluate whether they have been designed effectively to address the risks of material misstatement, or designed effectively to support the operation of other controls, and determine whether they have been implemented. (Ref: Para. A113A)

Risks of Material Misstatement Due to Fraud Related to Management Override of Controls

40. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall: (Ref: Para. A115–A116)
- (a) Treat the risks of management override of controls as risks of material misstatement due to fraud at the financial report level; and

²² See ASA 315, paragraph 25.

²³ See ASA 315, paragraph 26.

²⁴ See ASA 315, paragraph 27.

²⁵ See ASA 315, paragraphs 28–34.

- (b) Determine whether such risks affect the assessment of risks at the assertion level.

Risks of Material Misstatement Due to Fraud in Revenue Recognition

41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors. (Ref: Para. A117–A123)

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Designing and Performing Audit Procedures in a Manner That Is Not Biased

42. The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may contradict such assertions.

Unpredictability in the Selection of Audit Procedures

43. In determining responses to address assessed risks of material misstatement due to fraud, the auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A124–A125)

Overall Responses

44. In accordance with ASA 330,²⁶ the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial report level. (Ref: Para. A126)
45. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial report level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.

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

46. In accordance with ASA 330,²⁷ the auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Ref: Para. A127–A133)

Audit Procedures Responsive to Risks of Material Misstatement Due to Fraud Related to Management Override of Controls

47. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform the audit procedures in accordance with paragraphs 48–52, and determine whether other audit procedures are needed in addition to those in paragraphs 48–52, in order to respond to the identified risks of management override of controls.

Journal Entries and Other Adjustments

48. The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial report. (Ref: Para. A134–A137)

²⁶ See ASA 330, paragraph 5.

²⁷ See ASA 330, paragraph 6.

49. In designing and performing audit procedures in accordance with paragraph 48, the auditor shall: (Ref: Para. A98)
- (a) Make enquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
 - (b) Obtain audit evidence about the completeness of the population of journal entries and other adjustments made throughout the period; (Ref: Para. A138 and A145)
 - (c) Select journal entries and other adjustments made at the end of a reporting period; and (Ref: Para. A139–A141, A142 and A144–A145)
 - (d) Determine the need to test journal entries and other adjustments made throughout the period. (Ref: Para. A140–A141 and A143–A144)

Accounting Estimates

50. In applying ASA 540,²⁸ if indicators of possible management bias are identified, the auditor shall evaluate whether they may represent a risk of material misstatement due to fraud. (Ref: Para. A146–A148)
51. In performing the evaluation in accordance with paragraph 50, the auditor shall:
- (a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and
 - (b) If indicators of possible management bias are identified, re-evaluate the accounting estimates taken as a whole. (Ref: Para. A148–A150)

Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual

52. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Ref: Para. A151)

Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion

53. In applying ASA 520,²⁹ the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial report is consistent with the auditor's understanding of the entity, indicate a previously unrecognised risk of material misstatement due to fraud. (Ref: Para. A152–A153)

Overall Evaluation Based on Audit Procedures Performed

54. In applying ASA 330,³⁰ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:
- (a) The assessments of the risks of material misstatement due to fraud remain appropriate; and

²⁸ See ASA 540, paragraph 32.

²⁹ See ASA 520, *Analytical Procedures*, paragraph 6.

³⁰ See ASA 330, paragraphs 25–26, A62–A64.

- (b) Sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud.

Fraud or Suspected Fraud (Ref: Para. A7–A11, A27 and A154–A170)

55. If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter(s) in order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A156–A160)
- (a) Make enquiries about the matter(s) with the appropriate level of management and, when appropriate in the circumstances, make enquiries about the matter(s) with those charged with governance;
 - (b) If the entity has a process to investigate the matter(s), evaluate whether it is appropriate in the circumstances; and
 - (c) If the entity has implemented remedial actions to respond to the matter(s), evaluate whether they are appropriate in the circumstances.
56. Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential based on the procedures performed in paragraph 54, the engagement partner shall: (Ref: Para. A161–A163)
- (a) Determine whether:
 - (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ASA 315;
 - (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ASA 330; and
 - (iii) There are additional responsibilities for the auditor under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ASA 250.
 - (b) If applicable, consider the impact on prior period audits.
57. If the auditor identifies a misstatement due to fraud, the auditor shall: (Ref: Para. A164–A170)
- (a) Determine whether the identified misstatement is material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement;
 - (b) Determine whether control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud;
 - (c) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management is involved; and
 - (d) Reconsider the reliability of management's representations and audit evidence previously obtained, including when the circumstances or conditions giving rise to the misstatement indicate possible collusion involving employees, management or third parties.
58. If the auditor determines that the financial report is materially misstated due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the financial report is materially misstated due to fraud, the auditor shall:

- (a) Determine the implications for the audit and the auditor's opinion on the financial report in accordance with ASA 705;³¹ and
- (b) If appropriate, obtain advice from legal counsel.

Auditor Unable to Continue the Audit Engagement

59. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit engagement, the auditor shall:

- (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation;
- (c) If the auditor withdraws:
 - (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (Ref: Para. A171–A174)
- (d) Where law or regulation prohibits the auditor from withdrawing from the engagement, consider whether the exceptional circumstances will result in a disclaimer of opinion on the financial report.

Auditor's Report

Determining Key Audit Matters Related to Fraud

60. In applying ASA 701,³² the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A175–A181)

- (a) Identified and assessed risks of material misstatement due to fraud;
- (b) The identification of fraud or suspected fraud; and
- (c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud.

61. In applying ASA 701,³³ the auditor shall determine which of the matters determined in accordance with paragraph 59 were of most significance in the audit of the financial report of the current period and therefore are key audit matters. (Ref: Para. A182–A184)

³¹ See ASA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

³² See ASA 701, paragraph 9.

³³ See ASA 701, paragraph 10.

Communicating Key Audit Matters Related to Fraud

62. In applying ASA 701,³⁴ in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A185–A190)

Written Representations

63. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (Ref: Para. A191–A192)
- (a) They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud and have appropriately fulfilled those responsibilities;
 - (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud;
 - (c) They have disclosed to the auditor their knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have an effect on the financial report; and
 - (d) They have disclosed to the auditor their knowledge of suspected fraud, including allegations of fraud, affecting the entity's financial report communicated by employees, former employees, analysts, regulators, or others.

Communications with Management and Those Charged with Governance

Communication with Management

64. If the auditor identifies fraud or suspected fraud, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A193–A194)

Communication with Those Charged with Governance

65. Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud, involving:
- (a) Management;
 - (b) Employees who have significant roles in internal control; or
 - (c) Others, except for matters that are clearly inconsequential,
- the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A193 and A195–A197)

³⁴ See ASA 701, paragraph 11.

66. The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgement, relevant to the responsibilities of those charged with governance. (Ref: Para. A193 and A198)

Reporting to an Appropriate Authority Outside the Entity

67. If the auditor identifies fraud or suspected fraud, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A199–A203)
- (a) Require the auditor to report to an appropriate authority outside the entity.
 - (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Documentation

68. In applying ASA 230,³⁵ the auditor shall include the following in the audit documentation: (Ref: Para. A204)
- (a) The matters discussed among the engagement team regarding the susceptibility of the entity's financial report to material misstatement due to fraud in accordance with paragraph 29.
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 31–36, the sources of information from which the auditor's understanding was obtained and the risk assessment procedures performed.
 - (c) The identified and assessed risks of material misstatement due to fraud at the financial report level and at the assertion level, and the rationale for the significant judgements made.
 - (d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion.
 - (e) The results of audit procedures performed to address the risks of management override of controls, the significant professional judgements made, and the conclusions reached.
 - (f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgements made, and the conclusions reached.
 - (g) The matters related to fraud or suspected fraud communicated with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters.

* * *

³⁵ See ASA 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix.

Application and Other Explanatory Material

Responsibilities of the Auditor, Management and Those Charged with Governance

Responsibilities of the Auditor (Ref: Para. 2)

Considerations Specific to Public Sector Entities

- A1. The public sector auditor's responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor's mandate. Consequently, the public sector auditor's responsibilities may not be limited to consideration of risks of material misstatement of the financial report but may also include a broader responsibility to consider risks of fraud.

Key Concepts in this ASA

Characteristics of Fraud (Ref: Para. 5)

- A2. Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalisation of the act.

Examples:

- Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure, from sources outside or inside the entity, to achieve an expected (and perhaps unrealistic) earnings target or financial outcome — particularly when the consequences to management for failing to meet financial goals can be significant. Similarly, individuals may have an incentive to misappropriate assets — for example, because the individuals are living beyond their means.
- A perceived opportunity to commit fraud may exist when an individual believes controls can be overridden, for example, because the individual is in a position of trust or has knowledge of specific control deficiencies.
- Individuals may rationalise committing a fraudulent act as they may possess an attitude, character or set of ethical values that allow them to knowingly and intentionally commit a dishonest act. However, even otherwise honest individuals can commit fraud in an environment that imposes sufficient pressure on them.

- A3. Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial report, to deceive financial report users. It can be caused by the efforts of management to manage earnings to deceive financial report users by influencing their perceptions as to the entity's performance and profitability. Such earnings management may start out with small actions, or adjustment of assumptions, and changes in judgements by management. Pressures and incentives may lead these actions to increase to the extent that they result in material fraudulent financial reporting.

Examples:

- Management intentionally takes positions that lead to fraudulent financial reporting by materially misstating the financial report due to pressures to meet market expectations or a desire to maximise compensation based on performance.
- Management reduces earnings by a material amount to minimise tax.
- Management inflates earnings to secure bank financing.

- In the public sector, misreporting of revenues or underreporting of expenditures, especially when such expenditures are subject to statutory limits.

A4. Fraudulent financial reporting may be accomplished by the following:

- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial report is prepared.
- Misrepresentation in, or intentional omission from, the financial report of events, transactions or other significant information.
- Intentional misapplication of the applicable financial reporting framework relating to amounts, classification, manner of presentation, or disclosure.

A5. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as intentionally:

- Recording fictitious journal entries to manipulate operating results or achieve other objectives.
- Inappropriately adjusting assumptions and changing judgements used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial report of events and transactions that have occurred during the reporting period.
- Misstating disclosures, including omitting and obscuring disclosures, required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation.
- Concealing facts that could affect the amounts recorded in the financial report.
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- Altering records and terms related to transactions.
- Altering reports that would highlight inappropriate activity or transactions.
- Taking advantage of inadequate information processing controls in information technology (IT) applications, including controls over and review of IT application event logs (e.g., modifying the application logic, or where users can access a common database using generic access identification, or modify access identification, to conceal activity).

A6. Misappropriation of assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management, who are usually better positioned to disguise or conceal misappropriations in ways that are difficult to detect. In addition, misappropriation of assets can involve third parties who are able to exploit the entity's assets in order to obtain an unjust or illegal advantage. Misappropriation of assets can be accomplished in a variety of ways and is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Examples:

- Embezzling funds (e.g., misappropriating collections of accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).

- Theft of assets (e.g., stealing inventory for personal use, stealing scrap for resale, theft of digital assets by exploiting a private key and in doing so allowing the perpetrator to control the entity's funds, theft of intellectual property by colluding with a competitor to disclose technological data in return for payment).
- Causing an entity to pay for goods and services not received (e.g., payments to fictitious suppliers, kickbacks paid by suppliers to the entity's purchasing agents in return for approving payment for inflated prices, or payments to fictitious employees).
- Using an entity's assets for personal use (e.g., using the entity's assets as collateral for a personal loan or a loan to a related party).

Fraud or Suspected Fraud (Ref: Para. 7 and 54–57)

- A7. Audit evidence obtained when performing risk assessment procedures and further audit procedures in accordance with this ASA may indicate the existence of fraud or suspected fraud.

Examples:

- When obtaining an understanding of the entity's whistleblower program, the auditor identified a tip submitted to the entity's fraud reporting hotline which alleged that management had inflated earnings by entering into transactions with related parties which lacked a business purpose.
- When performing further audit procedures to respond to assessed risks of material misstatement due to fraud at the assertion level for inventory, the auditor obtained audit evidence that indicated the possible misappropriation of products from the entity's warehouse by employees.

- A8. Audit procedures performed to comply with other ASAs may also bring instances of fraud or suspected fraud to the auditor's attention including, for example, those performed in accordance with ASA 600³⁶ when responding to assessed risks of material misstatement due to fraud arising from the consolidation process.
- A9. The auditor may use automated tools and techniques to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud or when responding to assessed risks of material misstatement due to fraud. This may allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights or identify unusual trends, which enhances the ability of the auditor to exercise professional scepticism and more effectively challenge management's assertions. The auditor may also use automated tools and techniques to perform audit procedures related to journal entry testing in a more efficient and effective manner. However, the use of automated tools and techniques does not replace the need to maintain professional scepticism and to exercise professional judgement throughout the audit.
- A10. For the purpose of this ASA, allegations of fraud by another party involving the entity are treated by the auditor as suspected fraud once the allegations have come to the auditor's attention (e.g., identified as a result of enquiries made by the auditor of management, or when obtaining an understanding of the entity's whistleblower program (or other program to report fraud)). The party making the allegations may be internal or external to the entity. Accordingly, the auditor performs audit procedures in accordance with paragraphs 54–57 to address the suspected fraud.

³⁶ See ASA 600, *Special Considerations — Audits of a Group Financial Report (Including the Work of Component Auditors)*, paragraph 38(d).

- A11. Even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on:
- (a) Who instigated or perpetrated the fraud – an otherwise insignificant fraud perpetrated by senior management, or a public official is ordinarily considered qualitatively material irrespective of the amount involved. This may in turn give rise to concerns about the integrity of management responsible for the entity's system of internal control.
 - (b) Why the fraud was perpetrated – misstatements that are not material quantitatively, either individually or in the aggregate, may have been made intentionally by management to "manage" key performance indicators in order to, for example, meet market expectations, maximise compensation based on performance, or comply with the terms of debt covenants. In the public sector, misstatements may have been made intentionally by management to achieve a surplus when a deficit is prohibited by legislation or to misreport expenses incurred to avoid breaching statutory limits.

Inherent Limitations (Ref: Para. 10)

- A12. The risk of not detecting a material misstatement resulting from fraud exists because fraud may involve sophisticated and carefully organised schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in areas requiring judgement such as accounting estimates are caused by fraud or error.

Professional Scepticism and Professional Judgement (Ref: Para. 13)

- A13. ASQM 1³⁷ requires the firm to design, implement and operate a system of quality management for audits of the financial report. The firm's commitment to an effective system of quality management underpins the requirement for the auditor to exercise professional scepticism when performing the audit engagement. This commitment is recognised and reinforced in the governance and leadership component, including a:
- (a) Commitment to quality by the leadership of the firm, such as the tone at the top by leadership contributes to the firm's culture which in turn supports and encourages the auditor to focus on the auditor's responsibilities relating to fraud in an audit of a financial report.
 - (b) Recognition that the resource needs are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm's commitment to quality, such as resources with the appropriate specialised knowledge and skills that may be needed when performing audit procedures related to fraud in an audit of a financial report.
- A14. ASQM 1³⁸ also explains that the quality of professional judgements exercised by the firm is likely to be enhanced when individuals making such judgements demonstrate an attitude that includes an enquiring mind.

³⁷ See Australian Standard on Quality Management (ASQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

³⁸ See ASQM 1, paragraph A31.

Non-Compliance with Laws and Regulations (Ref: Para. 14)

- A15. The identification by the auditor of fraud or suspected fraud affecting the entity that has been perpetrated by a third party (see paragraphs 18(a) and A21) may also give rise to additional responsibilities for the auditor in accordance with ASA 250.

Example:

- When obtaining an understanding of the entity's general IT controls, the auditor was informed of a cybersecurity breach involving unauthorised access by a third party to the entity's confidential customer files, including related banking information. After obtaining an understanding of the suspected fraud, the engagement partner determined that the cybersecurity breach likely violated local data protection laws.

- A16. Complying with the requirements of this ASA may also fulfill certain applicable requirements in ASA 250.

Example:

- When performing tests of details on a bank's loan portfolio, the auditor identified a series of loans to newly formed entities connected to senior management that lacked appropriate documentation. The auditor determined the circumstances were indicative of fraudulent approvals of loans by senior management to related parties. After obtaining an understanding of the suspected fraud in accordance with paragraph 54, the auditor concluded the understanding was also sufficient to meet the requirement in paragraph 19(a) of ASA 250. The auditor evaluated the possible effect on the financial report of the fine for the entity's suspected violation of banking regulations regarding related-party lending in accordance with paragraph 19(b) of ASA 250.

- A17. Law, regulation, or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the Accounting Professional & Ethical Standards Board Limited's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations.³⁹

Relationship with Other ASAs (Ref: Para. 15)

- A18. Appendix 5 identifies other ASAs that address specific topics that reference fraud or suspected fraud.

Definitions (Ref: Para. 18)***Relationship of Fraud with Corruption, Bribery and Money Laundering (Ref: Para. 18(a))***

- A19. Depending on the nature and circumstances of the entity, certain laws, regulations or aspects of relevant ethical requirements dealing with corruption, bribery or money laundering may be relevant to the auditor's responsibilities to consider laws and regulations in an audit of a financial report in accordance with ASA 250.⁴⁰
- A20. Corruption, bribery and money laundering are forms of illegal or unethical acts. Corruption, bribery, and money laundering may be distinct concepts in law or regulation; however, they may also be fraudulent acts, or may be carried out to facilitate or conceal fraud.

Examples:

³⁹ See the Code, Section 360.

⁴⁰ See ASA 250, paragraphs 6 and A6.

- Corruption involving fraud – Management colluded with other competing parties to raise prices or lower the quality of goods or services for purchasers who wish to acquire products or services through a bidding process (i.e., bid rigging). The bid rigging included monetary payments by the designated winning bidder to colluding parties using fraudulent consulting contracts for which no actual work took place.
- Bribery to conceal fraud – Management offered inducements to employees for concealing the misappropriation of assets by management.
- Money laundering to facilitate fraud – An employee laundered money, to an offshore bank account, that was illegally obtained from embezzling payments for fictitious purchases of inventory through the creation of false purchase orders, supplier shipping documents, and supplier invoices.

A21. While the auditor may identify or suspect corruption, bribery, or money laundering, as with fraud, the auditor does not make legal determinations on whether such acts have actually occurred.

Third-Party Fraud (Ref: Para. 18(a))

A22. Fraud or suspected fraud committed against the entity by parties external to the entity is generally described as third-party fraud. Fraud as defined in paragraph 18(a) can include an intentional act by a third party and, accordingly, if an intentional act by a third party is identified or suspected that may have resulted in misappropriation of the entity's assets or fraudulent financial reporting by the entity, the auditor performs audit procedures in paragraphs 54–57.

A23. Parties external to the entity that may commit third-party fraud may include:

- Related parties, where potential opportunities for collusion with management, overly complex transactions, or bias in the structure of transactions may exist, as explained in ASA 550⁴¹.
- Third parties with which the entity has a relationship to support their business model such as customers, suppliers, service providers or other external parties known to the entity. These relationships may introduce the risk of collusion with employees or others in the entity to, for example, create fictitious transactions to manipulate financial results.
- Third parties unknown to the entity that may, for example, attempt to gain unauthorised access to an entity's IT environment that affects financial reporting or assets, or disrupts the entity's business operations or financial reporting processes.

Fraud Risk Factors (Ref: Para. 18(b) and 38)

A24. The presence of fraud risk factors may affect the auditor's assessment of inherent risk or control risk. Fraud risk factors may:

- Be inherent risk factors, insofar as they affect inherent risk, and may be due to management bias. They may also arise from other identified inherent risk factors (e.g., complexity or uncertainty may create opportunities that result in a susceptibility to misstatement due to fraud). When fraud risk factors are inherent risk factors, the inherent risk is assessed before consideration of controls.
- Relate to events or conditions that may exist in the entity's system of internal control that provide an opportunity to commit fraud and are relevant to the consideration of

⁴¹ See ASA 550 *Related Parties*.

the entity's controls (i.e., related to control risk), and may be an indicator that other fraud risk factors are present.

- A25. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.
- A26. Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in Appendix 1. These illustrative fraud risk factors are classified based on the three conditions that are, individually or in combination, generally present when fraud exists:
- An incentive or pressure to commit fraud;
 - A perceived opportunity to commit fraud; and
 - An attitude or rationalisation that justifies the fraudulent action.

Fraud risk factors reflective of an attitude that permits rationalisation of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such information through, for example, the required understanding of the entity's control environment.⁴² Although the fraud risk factors described in Appendix 1 cover a broad range of situations that may be faced by auditors, they are only examples and other fraud risk factors may exist.

Professional Scepticism (Ref: Para. 12–13 and 19–22)

- A27. Maintaining professional scepticism throughout the audit involves an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as audit evidence and identified controls in the control activities component, if any, over its preparation and maintenance. Due to the characteristics of fraud, the auditor's professional scepticism is particularly important when considering the risks of material misstatement due to fraud.
- A28. The manner in which circumstances that may be indicative of fraud or suspected fraud that affects the entity come to the auditor's attention throughout the audit may vary.

Examples:

Possible sources that may provide information about circumstances that may be indicative of fraud or suspected fraud that affects the entity include:

- The auditor (e.g., when performing audit procedures in accordance with ASA 550, the auditor becomes aware of the existence of a related party relationship that management intentionally did not disclose to the auditor).
- Those charged with governance (e.g., when members of the audit committee conduct an independent investigation of unusual journal entries and other adjustments).
- Management (e.g., when evaluating the results of the entity's risk assessment process).
- Individuals within the internal audit function (e.g., when individuals conduct the annual compliance procedures related to the entity's system of internal control).
- An employee (e.g., by filing a tip using the entity's whistleblower program).

⁴² See ASA 315, paragraph 21.

- A former employee (e.g., by sending a complaint via electronic mail to the internal audit function).

- A29. Remaining alert for circumstances that may be indicative of fraud or suspected fraud throughout the audit is important, including when performing audit procedures near the end of the audit when time pressures to complete the audit engagement may exist. For example, audit evidence may be obtained near the end of the audit that may call into question the reliability of other audit evidence obtained or cast doubt on the integrity of management or those charged with governance. Appendix 3 contains examples of circumstances that may be indicative of fraud or suspected fraud.
- A30. As explained in ASA 220,⁴³ conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. Paragraphs A35–A37 of ASA 220 list examples of impediments to the exercise of professional scepticism at the engagement level, unconscious or conscious biases that may affect the engagement team's professional judgements, and actions that may be taken to mitigate impediments to the exercise of professional scepticism.

Examples:

- A lack of cooperation and undue time pressures imposed by management negatively affected the engagement team's ability to resolve a complex and contentious issue. These circumstances were, based on the engagement partner's professional judgement, indicative of possible efforts by management to conceal fraud. The engagement partner involved more experienced members of the engagement team to deal with members of management who were difficult to interact with and communicated with those charged with governance as to the nature of the challenging circumstances, including the possible effect on the audit.
- Impediments imposed by management created difficulties for the engagement team in obtaining access to records, facilities, certain employees, customers, suppliers, and others. These circumstances were, based on the engagement partner's professional judgement, indicative of possible efforts by management to conceal fraud. The engagement partner reminded the engagement team not to be satisfied with audit evidence that was less than persuasive when responding to assessed risks of material misstatement due to fraud and communicated with those charged with governance as to the nature of the challenging circumstances, including the possible effect on the audit.

- A31. Circumstances may also be encountered which may create threats to compliance with relevant ethical requirements. ASA 220⁴⁴ discusses that relevant ethical requirements, for example the Code, may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with.⁴⁵
- A32. The auditor may also address the threat to compliance with relevant ethical requirements, such as the principle of integrity, by communicating on a timely basis with those charged with governance about the circumstances giving rise to the threat. This communication may include a discussion about any inconsistencies in audit evidence obtained for which a satisfactory explanation has not been provided by management.

⁴³ See ASA 220, paragraph A34.

⁴⁴ See ASA 220, paragraph A45.

⁴⁵ See paragraphs R111.1 and R113.1 of the Code require the accountant to be straightforward and diligent when complying with the principles of integrity, and professional competence and due care, respectively. Paragraph 111.1A1 of the Code explains that integrity involves having the strength of character to act appropriately, even when facing pressure to do otherwise. Paragraph 113.1 A3 of the Code explains that acting diligently also encompasses performing an assignment carefully and thoroughly in accordance with applicable technical and professional standards. These ethical responsibilities are required irrespective of the pressures being imposed, explicitly or implicitly, by management.

Inconsistent Responses

- A33. Inconsistent responses to enquiries may include inconsistencies both between the different groups of individuals specified in paragraph 21 (i.e., management, those charged with governance, individuals within the internal audit function, or others within the entity) and among individuals within the same group. For example, the auditor may identify inconsistent responses among different individuals within management.

Conditions That Cause the Auditor to Believe That a Record or Document May Not Be Authentic or That the Terms in a Document Have Been Modified

- A34. ASA 500⁴⁶ requires the auditor to consider the reliability of information intended to be used as audit evidence when designing and performing audit procedures. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information. Authenticity is an attribute of the reliability of information that the auditor may consider. In doing so, the auditor may consider whether the source actually generated or provided the information, and was authorised to do so, and the information has not been inappropriately altered.
- A35. Audit procedures performed in accordance with ASA 500, this or other ASAs, or information from other sources, may bring to the auditor's attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. The auditor is not, however, required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. Paragraph 22 applies if the auditor identifies such conditions during the course of the audit.

Examples:

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

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

⁴⁶ See ASA 500, *Audit Evidence*, paragraph 7.

- Electronic documents with a last edited date that is after the date they were represented as finalised.

A36. When conditions are identified that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible additional audit procedures to investigate further may include:

- Enquiries of management or others within the entity.
- Confirming directly with the third party.
- Using the work of an expert to evaluate the document's authenticity.
- Using automated tools and techniques, such as document authenticity or integrity technology, to evaluate the authenticity of the record or document.

A37. When the results of the additional audit procedures indicate that a record or document is not authentic or that the terms in a document have been modified, the auditor may determine that the circumstances are indicative of fraud or suspected fraud and, accordingly, performs audit procedures in accordance with paragraphs 54–57.

Engagement Resources (Ref: Para. 23)

A38. ASA 220⁴⁷ explains that the engagement partner's determination of whether additional engagement level resources are required to be assigned to the engagement team is a matter of professional judgement and is influenced by the nature and circumstances of the audit engagement, taking into account any changes that may have arisen during the engagement.

A39. The nature, timing, and extent of the involvement of individuals with specialised skills or knowledge, such as forensic and other experts when determined to be necessary or the involvement of more experienced individuals, may vary based on the nature and circumstances of the audit engagement.

Examples:

- The entity is investigating fraud or suspected fraud that may have a material effect on the financial report (e.g., when it involves senior management). An individual with forensic skills may assist in planning and performing audit procedures as it relates to the specific audit area where the fraud or suspected fraud was identified.
- The entity is undergoing an investigation by an authority outside the entity for fraud or suspected fraud, or for instances of non-compliance or suspected non-compliance with laws and regulations (e.g., materially misstated tax provision related to tax evasion and materially misstated revenues due to such revenues being generated from illegal activities facilitated through money laundering). Tax and anti-money laundering experts may assist with identifying those fraudulent aspects of the non-compliance or suspected non-compliance that may have a financial report impact.
- The complexity of the entity's organisational structure and related party relationships, including the creation or existence of special purpose entities, may present an opportunity for management to misrepresent the financial position or financial performance of the entity. For example, an expert in taxation law may assist in understanding the business purpose and activities or business units within complex organisations, including how its structure for tax purposes may be different from its operating structure.

⁴⁷ See ASA 220, paragraph A77.

- The complexity of the industry or regulatory environment in which the entity operates may present an opportunity or pressure for management to engage in fraudulent financial reporting. For example, an individual specialising in fraud schemes in specific emerging markets may assist in identifying fraud risk factors or where the financial report may be susceptible to risks of material misstatement due to fraud.
- The use of complex financial instruments or other complex financing arrangements may present an opportunity to inadequately disclose the risks and nature of complex structured products. For example, a valuation expert may assist in understanding the product's structure, purpose, underlying assets, and market conditions, which may highlight fraud risk factors such as discrepancies between market conditions and the valuation of the structured product.

- A40. Forensic skills, in the context of an audit of a financial report, may combine accounting, auditing and investigative skills. Such skills may be applied in an investigation and evaluation of an entity's accounting records to obtain possible evidence of fraudulent financial reporting or misappropriation of assets, or in performing audit procedures. The use of forensic skills may also assist the auditor in evaluating whether there is management override of controls or intentional management bias in financial reporting.

Examples:

Forensic skills may include specialised skills or knowledge in:

- Identifying and evaluating fraud risk factors.
- Identifying and assessing the risks of material misstatement due to fraud.
- Evaluating the effectiveness of controls implemented by management to prevent or detect fraud.
- Assessing the authenticity of information intended to be used as audit evidence.
- Gathering, analysing, and evaluating information or data using automated tools and techniques to identify links, patterns, or trends that may be indicative of fraud or suspected fraud.
- Applying knowledge in fraud schemes, and techniques for interviews, information gathering and data analytics, in the detection of fraud.
- Interviewing techniques used in discussing sensitive matters with management and those charged with governance.
- Analysing financial and non-financial information by using automated tools and techniques to look for inconsistencies, unusual patterns, or anomalies that may indicate intentional management bias or that may be the result of management override of controls.

- A41. In determining whether the engagement team has the appropriate competence and capabilities, the engagement partner may consider matters such as expertise in IT systems or IT applications used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit (e.g., when testing a high volume of journal entries and other adjustments when responding to the risks related to management override of controls).
- A42. In determining whether the members of the engagement team collectively have the appropriate competence and capabilities to respond to identified risks of material misstatement due to fraud, the engagement partner may consider, for example:

- Assigning additional individuals with specialised skills or knowledge, such as forensic and other experts;
- Changing the composition of the engagement team to include more experienced individuals; or
- Assigning more experienced members of the engagement team to conduct certain audit procedures for those specific audit areas that require significant auditor attention, including to make enquiries of management and, when appropriate in the circumstances, those charged with governance related to those specific audit areas.

Engagement Performance (Ref: Para. 24 and 29)

- A43. Depending on the nature and circumstances of the audit engagement, the engagement partner's approach to direction, supervision and review may include increasing the extent and frequency of the engagement team discussions. It may be beneficial to hold additional engagement team discussions based on the occurrence of events or conditions that have impacted the entity, which may identify new, or provide additional information about existing, fraud risk factors (see Appendix 1 for examples of fraud risk factors).

Examples:

- Sudden changes in business activity or performance (e.g., decrease in operating cashflows of an entity arising from economic conditions resulting in increased pressure internally by management to meet publicly disclosed earnings targets).
- Unexpected changes in the senior management of the entity (e.g., the chief financial officer resigns, with no explanation given for the sudden departure, providing an opportunity for other employees in the treasury department to commit fraud given the lack of senior management oversight).

Ongoing Nature of Communications with Management and Those Charged with Governance (Ref: Para. 25)

- A44. Robust two-way communication between management or those charged with governance and the auditor assists in identifying and assessing the risks of material misstatement due to fraud.
- A45. The extent of the auditor's communications with management and those charged with governance depends on the fraud-related facts and circumstances of the entity, as well as the progress and outcome of the fraud-related audit procedures performed in the audit engagement.
- A46. The appropriate timing of the communications may vary depending on the significance and nature of the fraud-related matters and the expected action(s) to be taken by management or those charged with governance.

Examples:

- Making the required enquiries of management and those charged with governance about matters referred to in paragraphs 32(b)–32(c) and 33(b) as early as possible in the audit engagement, for example, as part of the auditor's communications regarding planning matters.
- When ASA 701 applies, the auditor may communicate preliminary views about key audit matters related to fraud when discussing the planned scope and timing of the audit.
- Having specific discussions with management and those charged with governance as relevant audit evidence is obtained relating to the auditor's evaluation of each of the components of the entity's system of internal control and assessment of the risks of

material misstatement due to fraud. These discussions may form part of the auditor's communications on significant findings from the audit.

- Communicating, on a timely basis in accordance with ASA 265,⁴⁸ significant deficiencies in internal control (including those that are relevant to the prevention or detection of fraud) with the appropriate level(s) of management and those charged with governance may allow them to take necessary and timely remedial actions.

Assigning Appropriate Member(s) within the Engagement Team with the Responsibility to Communicate with Management and Those Charged with Governance

- A47. ASA 220⁴⁹ deals with the engagement partner's overall responsibility with respect to engagement resources and engagement performance. Due to the nature and sensitivity of fraud, particularly those involving senior management, assigning tasks or actions to appropriately skilled or suitably experienced members of the engagement team and providing appropriate levels of direction, supervision, and review of their work is also important for the required communications in accordance with this ASA. This includes involving appropriately skilled or suitably experienced members of the engagement team when communicating matters related to fraud with management and those charged with governance.
- A48. ASA 220⁵⁰ deals with the engagement partner's responsibility to make members of the engagement team aware of the relevant ethical requirements. For example, the Code requires compliance with the principle of integrity, which involves standing one's ground when confronted by dilemmas and difficult situations; or challenging others as and when circumstances warrant in a manner appropriate to the circumstances. It is important, especially for those members of the engagement team who will be engaging with management and those charged with governance about matters related to fraud, to consider the content of the communications and the manner in which such communications are to be conducted.

Risk Assessment Procedures and Related Activities (Ref: Para. 26)

- A49. As explained in ASA 315,⁵¹ obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analysing information and continues throughout the audit. Therefore, the auditor's expectations with respect to risks of material misstatements due to fraud may change as new information is obtained.

Information from Other Sources (Ref: Para. 27)

- A50. Information obtained from other sources in accordance with paragraphs 15–16 of ASA 315 may be relevant to the identification of fraud risk factors by providing information and insights about:
- The entity and the industry in which the entity operates and its related business risks, which may create pressures on the organisation to meet targeted financial results.
 - Management's commitment to integrity and ethical values.
 - Management's commitment to remedy known significant deficiencies in internal control on a timely basis.

⁴⁸ See ASA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

⁴⁹ See ASA 220, paragraphs 25–28 and 29–34.

⁵⁰ See ASA 220, paragraph 17.

⁵¹ See ASA 315, paragraph A48.

- Complexity in the application of the applicable financial reporting framework due to the nature and circumstances of the entity that may create opportunities for management to perpetrate and conceal fraudulent financial activity.
- A51. In conducting an initial audit engagement in accordance with ASA 510,⁵² in some circumstances, subject to law, regulation or relevant ethical requirements, the proposed successor auditor may request the predecessor auditor to provide information regarding identified or suspected fraud. Such information may give an indication of the presence of fraud risk factors or may give an indication of fraud or suspected fraud.

Retrospective Review of the Outcome of Previous Accounting Estimates (Ref: Para. 28)

- A52. The purpose of performing a retrospective review of management's judgements and assumptions related to accounting estimates reflected in the financial report of a previous period is to evaluate whether there is an indication of a possible bias on the part of management. It is not intended to call into question the auditor's judgements about previous period accounting estimates that were appropriate based on information available at the time they were made.

Engagement Team Discussion (Ref: Para. 29)

- A53. As explained in ASA 220,⁵³ the engagement partner is responsible for creating an environment that emphasises the importance of open and robust communication within the engagement team. The engagement team discussion enables the engagement team members to share insights in a timely manner based on their skills, knowledge and experience about how and where the financial report may be susceptible to material misstatement due to fraud.
- A54. Individuals who have specialised skills or knowledge, such as forensic and other experts, may be invited to attend the engagement team discussion to provide deeper insights about the susceptibility of the entity's financial report to material misstatement due to fraud. The involvement and contributions of individuals with specialised skills or knowledge may elevate the quality of the discussion taking place.
- A55. The exchange of ideas may serve to inform the auditor's initial perspective about the tone at the top. The conversation may include a discussion about the actions and behaviours of management and those charged with governance, including whether there are clear and consistent actions and communications about integrity and ethical behaviour at all levels within the entity.
- A56. The following approaches may be useful to facilitate the exchange of ideas:
- 'What-if' scenarios – these may be helpful when discussing whether certain events or conditions create an environment at the entity where one or more individuals among management, those charged with governance, or employees have the incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalisation of the act, and if so, how the fraud may occur.
 - Automated tools and techniques – these may be used to support the discussion about the susceptibility of the entity's financial report to material misstatement due to fraud. For example, automated tools and techniques may be used to support the identification of fraud risk factors, including techniques that further the understanding of incentives and pressures, such as industry or sector financial ratio benchmarking. Unusual relationships within the entity's current period data (e.g., financial and operating data) may indicate adverse ratios or trends compared to competitors or the entity's past performance.

⁵² See ASA 510, *Initial Audit Engagements—Opening Balances*.

⁵³ See ASA 220, paragraph 14.

A57. The exchange of ideas may include, among other matters, whether:

- The interactions, as observed by the engagement team, among management (e.g., between the chief executive officer and the chief financial officer) or between management and those charged with governance may indicate a lack of cooperation or mutual respect among the parties. This circumstance in turn may be indicative of an environment that is conducive to the existence of fraud.
- Any unusual or unexplained changes in behaviour or lifestyle of management or employees that have come to the attention of the engagement team may indicate the possibility of fraudulent activity.
- Known information (e.g., obtained through reading trade journals, or accessing reports issued by regulatory bodies), about frauds impacting other entities that resulted in the misstatement of the financial report of those entities, such as entities in the same industry or geographical region, may be indicative of risks of material misstatement due to fraud for the entity being audited.
- Disclosures, or lack thereof, may be used by management to obscure a proper understanding of the entity's financial report (e.g., by including too much immaterial information, by using unclear or ambiguous language, or by a lack of disclosures such as those disclosures relating to off-balance sheet financing arrangements or leasing arrangements).
- Events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern (e.g., a drug patent of an entity in the pharmaceutical industry expired leading to a decline in revenue). In such circumstances, there may be incentives or pressures for management to commit fraud in order to conceal a material uncertainty about the entity's ability to continue as a going concern.
- The entity has significant related party relationships and transactions (e.g., the entity has a complex organisational structure that includes several special-purpose entities controlled by management). These circumstances may provide the opportunity for management to perpetrate fraud; for example, by inflating earnings, or concealing debt.
- The entity has other third-party relationships that give rise to a fraud risk factor, or a risk of third-party fraud.

Examples:

- Based on the auditor's understanding of the entity's information processing activities, the auditor identified a fraud risk factor (i.e., opportunity to commit fraud) resulting from management's lack of oversight over significant business processes outsourced to a third-party service provider.
- Based on the auditor's understanding of the entity's physical access controls, the auditor identified a fraud risk factor (i.e., opportunity to commit fraud) resulting from the entity's lack of sufficient security at locations with a material amount of small, lightweight, high-value assets.
- Based on the auditor's understanding of revenue contracts, the auditor became aware that the entity is using consignment agreements, where third parties sell the entity's inventory on its behalf, and the entity earns revenue from these sales. The auditor identified a fraud risk factor (i.e., incentive to commit fraud) resulting from the third party's incentive to underreport to the entity consigned sales in order for the third party to meet its own sales targets.

- A58. The engagement team may consider other ways in which management may override controls beyond the use of journal entries and other adjustments, significant estimates or transactions outside the normal course of business.

Examples:

- Creating fictitious employee records or vendors in an attempt to transfer cash to personal accounts.
- Modifying the timing of legitimate transactions to manipulate the financial records.

- A59. The engagement partner and other key engagement team members participating in the engagement team discussion may also, as applicable, use this as an opportunity to:

- Emphasise the importance of maintaining a questioning mind throughout the audit regarding the potential for material misstatement due to fraud.
- Remind engagement team members of their role in serving the public interest by performing quality audit engagements and the importance of engagement team members remaining objective in order to better facilitate the critical assessment of audit evidence obtained from persons within or outside the financial reporting or accounting functions, or outside the entity.
- Consider the audit procedures that may be selected to respond appropriately to the susceptibility of the entity's financial report to material misstatement due to fraud, including whether certain types of audit procedures may be more effective than others and how to incorporate an element of unpredictability into the nature, timing and extent of audit procedures to be performed. Appendix 2 contains examples of procedures that incorporate an element of unpredictability.

Analytical Procedures Performed and Unusual or Unexpected Relationships Identified (Ref: Para. 30)

- A60. The auditor may identify fluctuations or relationships when performing analytical procedures in accordance with ASA 315⁵⁴ that are inconsistent with other relevant information or that differ from expected values significantly.

Example:

Analytical Procedure	Unexpected or Inconsistent Result of the Analytical Procedure
A comparison of the entity's recorded sales volume to the entity's production capacity.	An excess of sales volume over production capacity may be indicative of fictitious sales or sales recorded before revenue recognition criteria have been met.
A trend analysis of revenues by month compared to sales returns by month, including during and shortly after the reporting period.	An increase in sales returns shortly after the reporting period relative to sales returns during the month may indicate the existence of undisclosed side agreements with customers involving the return of goods, which, if known, would preclude revenue recognition.

⁵⁴ See ASA 315, paragraph 14(b).

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

The Entity and Its Environment (Ref: Para. 31)

The Entity's Organisational Structure and Ownership, Governance, Objectives and Strategy, and Geographic Dispersion

- A61. Understanding the entity's organisational structure and ownership assists the auditor in identifying fraud risk factors. An overly complex organisational structure involving unusual legal entities or unnecessarily complex or unusual organisational structures compared to other entities in the same industry may indicate that a fraud risk factor is present.

Example:

- Where there are complex intercompany transactions, this increases the opportunity to manipulate balances or create fictitious transactions.

- A62. Understanding the nature of the entity's governance arrangements assists the auditor in identifying fraud risk factors. For example, poor governance or accountability arrangements may weaken oversight and increase the opportunity for fraud (see also paragraphs A70–A81). However, some entities may have assigned the responsibility for overseeing the processes for identifying and responding to fraud in the entity to a senior member of management or to someone with designated responsibility.

Example:

If the entity is undergoing significant digital transformation activities, poor governance arrangements over newly implemented technologies impacting the entity's information system relevant to the preparation of the financial report may increase the opportunity for fraud.

- A63. Understanding the entity's objectives and strategy assists the auditor in identifying fraud risk factors. Objectives and strategy impact expectations, internally and externally, and may create pressures on the entity to achieve financial performance targets.

Example:

When the entity has a very aggressive growth strategy, this may create pressures on personnel within the entity to commit fraud to meet the goals set.

- A64. Understanding the entity's geographic dispersion assists the auditor in identifying fraud risk factors. The entity may have operations in locations that may be susceptible to fraud, or other illegal or unethical acts that may be carried out to facilitate or conceal fraud. The auditor may obtain information about these locations from a variety of internal and external sources, including searches of relevant databases.

Examples:

- Weak legal and regulatory frameworks that create a permissive environment for fraudulent financial reporting without significant consequences.
- Offshore financial centres that have less restrictive regulations and tax incentives that may facilitate fraud through money laundering.

- Cultural norms in which bribery is an accepted practice of doing business, which could lead to bribery being used to facilitate or conceal fraud.

Industry and Regulatory Environment

A65. Understanding the industry and the regulatory environment in which the entity operates assists the auditor in identifying fraud risk factors. The entity may operate in an industry that may be susceptible to fraud, or other illegal or unethical acts that may be carried out to facilitate or conceal fraud. The auditor may obtain an understanding about whether the entity operates in:

- An industry where there are greater opportunities to commit fraud (e.g., in the construction industry the revenue recognition policies may be complex and subject to significant judgement which may create an opportunity to commit fraud).
- An industry that is under pressure (e.g., a high degree of competition or market saturation, accompanied by declining margins in that sector). Such characteristics may create an incentive to commit fraud as it may be harder to achieve the financial performance targets.
- An industry that is susceptible to acts of money laundering (e.g., the banking, or gaming and gambling industries may be particularly vulnerable to money laundering, which could facilitate fraud).
- A regulatory environment that may create incentives or pressures to commit fraud (e.g., government aid programs may include thresholds to be met to obtain the aid).

Performance Measures Used, Whether Internal or External

A66. Performance measures, whether internal or external, may create pressures on the entity. These pressures, in turn, may motivate management or employees to take action to inappropriately improve the business performance or to misstate the financial report. Internal performance measures may include employee performance measures and incentive compensation policies. External performance measures may include expectations from shareholders, analysts, or other users.

Example:

Automated tools and techniques, such as analysis of disaggregated data, for example by business segment or product line, may be used by the auditor to identify inconsistencies or anomalies in the data used in performance measures.

A67. The auditor may consider listening to the entity's earnings calls with analysts or reading analysts' research reports. This may provide the auditor with information about whether analysts have aggressive or unrealistic expectations about an entity's financial performance. Auditors may also learn about management's attitudes regarding those expectations based on how management interacts with analysts. Aggressive expectations by analysts that are met by commitments by management to meet those expectations may be indicative of pressures and rationalisations for management to manipulate key performance metrics.

A68. Other matters that the auditor may consider include:

- Management's compensation packages. When a significant portion of management's compensation packages are contingent on achieving financial targets, management may have an incentive to manipulate financial results.
- Negative media attention, short-selling reports, or negative analyst reports. When management is under pressure or intense scrutiny to respond to these matters, management may have an incentive to manipulate financial results.

Considerations specific to public sector entities

- A69. In the case of a public sector entity, legislators and regulators are often the primary users of its financial report and may therefore have expectations in relation to external performance measures. The auditor may also consider the nature and extent of external scrutiny from other parties or citizens as management of the public sector entity may have an incentive to manipulate financial results when they are under pressure or intense scrutiny.

Understanding the Applicable Financial Reporting Framework and the Entity's Accounting Policies (Ref: Para. 31)

- A70. Matters related to the applicable financial reporting framework that the auditor may consider when obtaining an understanding of where there may be an increased susceptibility to misstatement due to management bias or other fraud risk factors, include:
- Areas in the applicable financial reporting framework that require:
 - A measurement basis that results in the need for a complex method relating to an accounting estimate.
 - Management to make significant judgements, such as accounting estimates with high estimation uncertainty or where an accounting treatment has not yet been established for new and emerging financial products (e.g., types of digital assets).
 - Expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. Particularly where management can influence, and direct work performed, and conclusions reached by management's experts.
 - Changes in the applicable financial reporting framework. For example, management may intentionally misapply new accounting requirements relating to amounts, classification, manner of presentation, or disclosures.
 - The selection of and application of accounting policies by management. For example, management's choice of accounting policy is not consistent with similar entities in the same industry.
 - The amount of an accounting estimate selected by management for recognition or disclosure in the financial report.

Examples:

- Management may consistently trend toward one end of a range of possible outcomes that provide a more favourable financial reporting outcome for management.
- Management may use a model that applies a method that is not established or commonly used in a particular industry or environment.

Understanding the Components of the Entity's System of Internal Control

Control Environment

Entity's culture and management's commitment to integrity and ethical values (Ref: Para. 32(a)(i))

- A71. Understanding aspects of the entity's control environment that address the entity's culture and understanding management's commitment to integrity and ethical values assists the auditor in determining management's attitude and tone at the top with regards to the prevention and detection of fraud.

- A72. In considering the extent to which management demonstrates a commitment to ethical behaviour, the auditor may obtain an understanding through enquiries of management and employees, and through considering information from external sources, about:
- Management's commitment to integrity and ethical values through their actions. This is important as employees may be more likely to behave ethically when management is committed to integrity and ethical behaviours.
 - The entity's communications with respect to integrity and ethical values. For example, the entity may have a mission statement, a code of ethics, or a fraud policy that sets out the expectations of entity personnel in respect to their commitment to integrity and ethical values regarding managing fraud risk. In larger or more complex entities, management may also have set up a process that requires employees to annually confirm that they have complied with the entity's code of ethics.
 - Whether the entity has developed fraud awareness training. For example, the entity may require employees to undertake ethics and code of conduct training as part of an ongoing or induction program. In a larger or more complex entity, specific training may be required for those with a role in the prevention and detection of fraud (e.g., the internal audit function).
 - Management's response to fraudulent activity. For example, where minor unethical practices are overlooked (e.g., petty theft, expenses frauds), this may indicate that more significant frauds committed by key employees may be treated in a similar lenient fashion.

The entity's whistleblower program (or other program to report fraud) (Ref: Para. 32(a)(ii))

- A73. Often frauds are discovered through tips or complaints submitted through an entity's whistleblower program. Whistleblower programs, which some entities may refer to by other names including, for example fraud reporting hotline, are designed to gather, among other things, information from employees, customers, and other stakeholders about allegations of fraud impacting the entity. A whistleblower program is often an essential component of an entity's fraud risk management.
- A74. The design of a whistleblower program will vary depending on the nature and complexity of the entity, including the entity's exposure to fraud risks. For example, more formalised whistleblower programs may include a dedicated email, website or telephone reporting mechanism, formal training for all employees, periodic reporting to management and those charged with governance for matters reported through the program, or management of the program by a third party. Alternatively, whistleblower programs may consist of less formal processes, which may include verbal communication of the program or communication via the entity's website where tips or complaints can be received, along with monitoring performed by the entity's human resource personnel or by an independent party, such as external counsel.
- A75. When obtaining an understanding of the entity's whistleblower program, the auditor may:
- Obtain an understanding of how the entity receives tips or complaints, the objectivity and competence of the individuals involved in administering the program, the appropriateness of the entity's processes for addressing the matters raised, including its investigation and remediation processes and protections afforded to whistleblowers. In a larger or more complex entity, the lack of a whistleblower program, or an ineffective one, may be indicative of deficiencies in the entity's control environment.
 - Inspect the whistleblower program files for any tips or complaints that may allege fraud that are not under investigation by the entity, or for information that may raise questions about management's commitment to creating and maintaining a culture of honesty and ethical behaviour.

- Perform additional procedures related to allegations of fraud that are under investigation by the entity in accordance with the requirements in paragraphs 54-57.

Oversight exercised by those charged with governance (Ref: Para. 32(a)(iii))

- A76. In many jurisdictions, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of risks, including risks of fraud and the controls that address such risks. Since the responsibilities of those charged with governance and management may vary by entity and by jurisdiction, it is important that the auditor understands their respective responsibilities to enable the auditor to obtain an understanding of the oversight exercised by the appropriate individuals with respect to the prevention and detection of fraud.⁵⁵
- A77. An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to management fraud, the adequacy of controls that prevent or detect fraud, and the competency and integrity of management. The auditor may obtain this understanding in several ways, such as by attending meetings where such discussions take place, reading the minutes from such meetings, or making enquiries of those charged with governance.
- A78. The effectiveness of oversight by those charged with governance is influenced by their objectivity and familiarity with the processes and controls management has put in place to prevent or detect fraud. For example, the oversight by those charged with governance of the effectiveness of controls to prevent or detect fraud is an important aspect of their oversight role and the objectivity of such evaluation is influenced by their independence from management.

Scalability (Ref: Para. 32(a)(iii))

- A79. In some cases, all of those charged with governance are involved in managing the entity. This may be the case in a smaller or less complex entity where a single owner manages the entity and no one else has a governance role. In these cases, there is ordinarily no action on the part of the auditor because there is no oversight separate from management.

Enquiries of those charged with governance (Ref: Para. 32(c))

- A80. The auditor may also enquire of those charged with governance about how the entity assesses the risk of fraud, and the entity's controls to prevent or detect fraud, the entity's culture and management's commitment to integrity and ethical values.
- A81. Specific enquiries on areas that are susceptible to misstatement due to management bias or management fraud may relate to both inherent risk and control risk. Specific enquiries may include management judgement when accounting for complex accounting estimates or unusual or complex transactions, including those in controversial or emerging areas, which may be susceptible to fraudulent financial reporting.
- A82. Enquiries on whether those charged with governance are aware of any control deficiencies related to the prevention and detection of fraud may inform the auditor's evaluation of the components of the entity's system of internal control. Such enquiries may highlight conditions within the entity's system of internal control that provide opportunity to commit fraud or that may affect management's attitude or ability to rationalise fraudulent actions. For example, understanding incentives or pressures on management that may result in intentional or unintentional management bias may inform the auditor's understanding of the entity's risk assessment process and understanding of business risks. Such information may affect the auditor's consideration of the effect on the reasonableness of significant assumptions made by, or the expectations of, management.

⁵⁵ See ASA 260, *Communication with Those Charged with Governance*, paragraphs A1–A8 provide guidance about whom the auditor should be communicating with, including when the entity's governance structure is not well defined.

The Entity's Risk Assessment Process

The entity's process for identifying, assessing, and addressing fraud risks (Ref: Para. 33(a))

A83. Management may place a strong emphasis on fraud prevention by implementing a fraud risk management program. The design of the fraud risk management program may be impacted by the nature and complexity of the entity and may include the following elements:

- Establishing fraud risk governance policies.
- Performing a fraud risk assessment.
- Designing and deploying fraud preventive and detective control activities.
- Conducting investigations.
- Monitoring and evaluating the total fraud risk management program.

Identifying fraud risks (Ref: Para. 33(a)(i))

A84. The entity's risk assessment process may include an assessment of the incentives, pressures, and opportunities to commit fraud, or how the entity may be susceptible to third-party fraud. An entity's risk assessment process may also consider the potential override of controls by management as well as areas where there are control deficiencies, including a lack of segregation of duties.

A85. Where legal or regulatory requirements apply, management may consider risks relating to misappropriation of assets or fraudulent financial reporting in relation to the entity's compliance with laws or regulations. For example, a fraud risk may include the preparation of inaccurate information for a regulatory filing in order to improve the appearance of an entity's performance and thereby avoid inspection by regulatory authorities or penalties.

Considerations specific to public sector entities

A86. In the public sector, management may need to consider risks related to political pressures to achieve specific outcomes, and pressures to meet or stay within the approved budget, including expenditures subject to statutory limits.

Assessing the significance of the identified fraud risks and addressing the assessed fraud risks (Ref: Para. 33(a)(ii)–(iii))

A87. There are several approaches management may use to assess fraud risks, and the approach may vary depending on the nature and circumstances of the entity. The entity may assess fraud risks using different forms, such as a complex matrix of risk ratings or a simple narrative.

A88. When determining the likelihood of fraud, management may consider both probability and frequency (i.e., the number of fraud incidents that can be expected). Other factors that management may consider in determining the likelihood may include the volume of transactions or the quantitative benefit to the perpetrator.

A89. Management may address the likelihood of a fraud risk by taking action within the other components of the entity's system of internal control or by making changes to certain aspects of the entity or its environment. To address fraud risks, an entity may choose to cease doing business in certain locations, reallocate authority among key personnel, or make changes to aspects of the entity's business model.

Example:

During the entity's risk assessment process relating to third-party fraud, management identified an unusual level of disbursements to recently added vendors to the entity's approved-vendor database. Upon investigating the matter, management determined that

purchasing and procurement personnel had colluded with the vendors when it added those vendors to the database. Management designed and implemented controls to prevent and detect the reoccurrence of vendor-related fraud.

- A90. If the auditor identifies risks of material misstatement due to fraud that management failed to identify, the auditor is required to determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement.⁵⁶

Scalability (Ref: Para. 33(a))

- A91. In smaller and less complex entities, and in particular owner-managed entities, the way the entity's risk assessment process is designed, implemented, and maintained may vary with the entity's size and complexity. When there are no formalised processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance identify fraud risks related to the misappropriation of assets and fraudulent financial reporting, assesses the significance of the identified fraud risks and addresses the assessed risks.

Enquiries of management and others within the entity (Ref: Para. 33(b))

- A92. Management accepts responsibility for the entity's system of internal control and for the preparation of the entity's financial report. Accordingly, it is appropriate for the auditor to make enquiries of management regarding management's own process for identifying and responding to the entity's fraud risks. The nature, extent and frequency of management's risk assessment process may vary from entity to entity. In some entities, management's process may occur on an annual basis or as part of ongoing monitoring. In other entities, management's process may be less structured and less frequent. The nature, extent and frequency of management's risk assessment process is relevant to the auditor's understanding of the entity's control environment. For example, the fact that management does not have a risk assessment process or when the entity's risk assessment process does not address the identified fraud risks may be indicative of the lack of importance that management places on internal control.
- A93. Enquiries of management may provide useful information concerning the risks of material misstatements resulting from employee fraud. However, such enquiries are unlikely to provide useful information regarding the risks of material misstatement resulting from management fraud. Enquiries of others within the entity may provide additional insight into fraud prevention controls, tone at the top, and culture of the organisation. The responses from these enquiries may also serve to corroborate responses received from management or provide information regarding the possibility of management override of controls.

Examples:

Others within the entity to whom the auditor may direct enquiries about the existence or suspicion of fraud include:

- Operating personnel not directly involved in the financial reporting process.
- Employees with different levels of authority.
- Employees involved in initiating, processing, or recording complex or unusual transactions and those who supervise or monitor such employees.
- In-house legal counsel.

⁵⁶ See ASA 315, paragraph 23.

- Chief ethics officer, chief compliance officer or equivalent person.
- The person or persons charged with dealing with allegations of fraud

- A94. Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to enquiries with an attitude of professional scepticism, the auditor may judge it necessary to corroborate responses to enquiries with information from other sources.
- A95. Enquiries of management and others within the entity may be most effective when they involve a discussion and when conducted by senior members of the engagement team. This allows for a two- way dialogue with the interviewees and provides the opportunity for the auditor to ask probing and clarifying questions.

The Entity's Process to Monitor the System of Internal Control

Ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud (Ref: Para. 34(a))

- A96. Matters that may be relevant for the auditor to consider when understanding those aspects of the entity's process that addresses the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies may include:
- Whether management has identified particular operating locations, or business segments for which the risk of fraud may be more likely to exist and whether management has introduced different approaches to monitor these operating locations or business segments.
 - How the entity monitors controls that address fraud risks in each component of the entity's system of internal control, including the operating effectiveness of anti-fraud controls, and the remediation of control deficiencies as necessary.

Enquiries of internal audit (Ref: Para. 34(b))

- A97. The internal audit function of an entity may perform assurance and advisory activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. In that capacity, the internal audit function may identify frauds or be involved throughout a fraud investigation process. Enquiries of appropriate individuals within the internal audit function may therefore provide the auditor with useful information about instances of fraud, suspected fraud, or allegations of fraud, and the risk of fraud.
- A98. ASA 315 and ASA 610 establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.⁵⁷

Examples:

In applying ASA 315 and ASA 610 in the context of fraud, the auditor may, for example, enquire about:

- How the entity's risk assessment process addresses the risk of fraud.
- The entity's processes and controls to prevent or detect fraud.
- The entity's culture and management's commitment to integrity and ethical values.

⁵⁷ See ASA 315, paragraphs 14(a) and 24(a)(ii), and ASA 610, *Using the Work of Internal Auditors*.

- Whether the internal audit function is aware of any instances of management override of controls.
- The procedures performed, if any, by the internal audit function during the year related to fraud and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures.
- The procedures performed, if any, by the internal audit function in investigating frauds and suspected violations of the entity's code of ethics and values, and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures.
- The fraud-related reports, if any, or communications prepared by the internal audit function and whether management and those charged with governance have satisfactorily responded to any findings resulting from those reports.
- Control deficiencies identified by the internal audit function that are relevant to the prevention and detection of fraud and whether management and those charged with governance have satisfactorily responded to any findings resulting from those deficiencies.

The Information System and Communication (Ref: Para. 35 and 49)

- A99. Obtaining an understanding of the entity's information system and communication relevant to the preparation of the financial report includes the manner in which an entity incorporates information from transaction processing into the general ledger. This ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. This understanding enables the auditor to identify the population of journal entries and other adjustments that is required to be tested in accordance with paragraph 49(b). Obtaining an understanding of the population may provide the auditor with insights about journal entries and other adjustments that may be susceptible to unauthorised or inappropriate intervention or manipulation. This may assist the auditor in designing and performing audit procedures over journal entries and other adjustments in accordance with paragraphs 49(c) and 49(d).
- A100. Appendix 4 includes additional considerations when selecting journal entries and other adjustments for testing, including matters that the required understanding provides the auditor knowledge about.
- A101. When performing risk assessment procedures, the auditor may consider changes in the entity's IT environment because of the introduction of new IT applications or enhancements to the IT infrastructure, which may impact the susceptibility of the entity to fraud or create vulnerabilities in the IT environment (e.g., changes to the databases involved in processing or storing transactions). There may also be an increased susceptibility to misstatement due to management bias or other fraud risk factors when there are complex IT applications used to initiate or process transactions or information, such as the use of artificial intelligence or machine learning algorithms to calculate and initiate accounting entries. In such circumstances, the auditor may assign individuals with specialised skills and knowledge, such as forensic and IT experts, or more experienced individuals to the engagement.

Control Activities (Ref: Para. 36)

- A102. Management may make judgements on the nature and extent of the controls it chooses to implement and the nature and extent of the risks it chooses to accept given the nature and circumstances of the entity. In determining which controls to implement to prevent or detect fraud, management considers the risks that the financial report may be materially misstated due to fraud.
- A103. Controls designed to prevent or detect fraud are generally classified as either preventive (designed to prevent a fraudulent event or transaction from occurring) or detective (designed

to discover a fraudulent event or transaction after the fraud has occurred). Addressing fraud risks may involve a combination of manual and automated fraud prevention and detection controls that enable the entity to monitor for indicators of fraud within the scope of its risk tolerance.

Examples:**Preventive controls**

- Clearly defined and documented decision makers using delegations, authorisations, and other instructions.
- Access controls, including those that address physical security of assets against unauthorised access, acquisition, use or disposal and those that prevent unauthorised access to the entity's IT environment and information, such as authentication technology.
- Controls over the process to design, program, test and migrate changes to the IT system.
- Entry level checks, probationary periods, suitability assessments or security vetting in order to assess the integrity of new employees, contractors or third parties.
- Sensitive or confidential information cannot leave the entity's IT environment without authority or detection.

Detective controls

- Exception reports to identify activities that are unusual or not in the ordinary course of business for further investigation.
- Mechanisms for employees of the entity and third parties to make anonymous or confidential communications to appropriate persons within the entity about identified or suspected fraud.
- Fraud detection software programs incorporated into the IT infrastructure that automatically analyse transactions data or enable data monitoring and analysis to detect what is different from what is standard, normal, or expected and may therefore indicate fraud.

- A104. ASA 315⁵⁸ requires the auditor to obtain an understanding of controls over journal entries as well as to evaluate their design and determine whether they have been implemented as part of understanding the entity's system of internal control. This understanding focuses on the controls over journal entries that address risks of material misstatement at the assertion level, whether due to fraud or error. Paragraphs 48–49 of this ASA require the auditor to design and perform audit procedures to test the appropriateness of journal entries and are specifically focused on the risks of material misstatement due to fraud (see Appendix 4 for additional considerations when testing journal entries).
- A105. Information from understanding controls over journal entries, designed to prevent or detect fraud, or the absence of such controls, may also be useful in identifying fraud risk factors that may affect the auditor's assessment of the risks of material misstatement due to fraud.
- A106. The following are examples of general IT controls that may address the risks arising from the use of IT and may also be relevant to the prevention or detection of fraud.

⁵⁸ See ASA 315, paragraphs 26(a)(ii) and 26(d).

Examples:

- Controls that segregate access to make changes to a production (i.e., end user) environment.
- Access controls to manage:
 - Privileged access – such as controls over administrative or powerful users' access.
 - Provisioning – such as controls to authorise modifications to existing users' access privileges, including non-personal or generic accounts that are not tied to specific individuals within the entity
- Review of system logs that track access to the information system, enabling user activity to be monitored and security violations to be reported to management.

Scalability

A107. For some entities whose nature and circumstances are more complex, such as those operating in the insurance or banking industries, there may be more complex preventative and detective controls in place. These controls may also affect the extent to which specialised skills are needed to assist the auditor in obtaining an understanding of the entity's risk assessment process.

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 37)

A108. In performing the evaluations of each of the components of the entity's system of internal control, the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator, which assists the auditor in identifying deficiencies in internal control that are relevant to the prevention and detection of fraud. If the auditor has identified one or more control deficiencies relevant to the prevention or detection of fraud, the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with ASA 330.

A109. Paragraph 59(c) of this ASA and ASA 265⁵⁹ establish other requirements on identified deficiencies in internal control.

Evaluation of Fraud Risk Factors (Ref: Para. 38)

A110. The significance of fraud risk factors varies widely. Some of these factors will be present in entities where the specific conditions do not present risks of material misstatement. Accordingly, the determination as to whether fraud risk factors, individually or in combination, indicate that there are risks of material misstatement due to fraud is a matter of professional judgement.

A111. The size, complexity, and ownership characteristics of the entity have a significant influence on the consideration of fraud risk factors. For example, depending on the nature and circumstances of the entity, there may be factors that generally constrain improper conduct by management, such as:

- Effective oversight by those charged with governance.
- An effective internal audit function.

⁵⁹ See ASA 265, paragraph 8.

- The existence and enforcement of a written code of conduct.
- The existence of an effective whistleblower program (or other program to report fraud).

Furthermore, fraud risk factors considered at a business segment operating level may provide different insights when compared with those obtained when considered at an entity-wide level.

Scalability

- A112. In the case of a smaller or less complex entity, some or all of these considerations may not be applicable or less relevant. For example, a smaller or less complex entity may not have a written code of conduct but, instead, may have developed a culture that emphasises the importance of integrity and ethical behaviour through oral communication and by management example. Domination of management by a single individual in a smaller or less complex entity does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management authorisation can compensate for otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual creates a conducive environment for management override of controls.

Identifying and Assessing the Risks of Material Misstatement due to Fraud (Ref: Para. 39)

- A113. In determining whether fraud risk factors, individually or in combination, indicate that there are risks of material misstatement due to fraud, the auditor may consider:
- The likelihood and magnitude of fraud resulting from fraud risk factors. Fraud risk factors influence the auditor's assessment of the likelihood and magnitude of a potential misstatement for the identified risks of misstatement due to fraud. Considering the degree to which fraud risk factors affect the susceptibility of an assertion to misstatement assists the auditor in appropriately assessing risks of material misstatement at the assertion level due to fraud.
 - The number of fraud risk factors that relate to the same class of transactions, account balance or disclosure. When several fraud risk factors relate to the same class of transactions, account balance or disclosure, it may indicate that there is a risk of material misstatement due to fraud at the assertion level.
- A114. Determining whether the risks of material misstatement due to fraud exist at the financial report level, or the assertion level for classes of transactions, account balances and disclosures, may assist the auditor in determining appropriate responses to address the assessed risks of material misstatement due to fraud.

Examples:

Relevant assertions and the related classes of transactions, account balances or disclosures that may be susceptible to material misstatement due to fraud include:

- Accuracy or valuation of revenue from contracts with customers — revenue from contracts with customers may be susceptible to inappropriate estimates of the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.
- Occurrence or classification of expenses — expenses may be susceptible to inclusion of fictitious or personal expenses to minimise tax or other statutory obligations.
- Existence of cash balances — cash balances may be susceptible to the creation of falsified or altered external confirmations or bank statements.

- Valuation of account balances involving complex accounting estimates — account balances involving complex accounting estimates such as goodwill and other intangible assets, impairment of inventories, expected credit losses, insurance contract liabilities, employee retirement benefits liabilities, environmental liabilities or environmental remediation provisions may be susceptible to high estimation uncertainty, significant subjectivity and management bias in making judgements about future events or conditions.
- Classification — certain income or expenses may be susceptible to misclassification within the statement of comprehensive income, for example, to manipulate key performance measures.
- Presentation of disclosures — disclosures may be susceptible to omission, or incomplete or inaccurate presentation, for example, disclosures relating to contingent liabilities, off-balance sheet arrangements, financial guarantees or debt covenant requirements.

A115. Evaluating the design of controls that address significant risks, or support the operation of other controls that address significant risks, involves the auditor's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting material misstatements due to fraud (i.e., the control objective). The auditor determines whether identified controls have been implemented by establishing that the control exists, and that the entity is using it. The controls in the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control are primarily indirect controls. For example, a whistleblower program (or other program to report fraud) may be an indirect control within the control environment. Indirect controls may not be sufficiently precise to prevent, detect or correct misstatements due to fraud at the assertion level but support other controls and may therefore have an indirect effect on the likelihood that a misstatement due to fraud will be prevented or detected on a timely basis. However, some controls within these components may also be direct controls.

Considerations Specific to Public Sector Entities

A116. In the public sector, misappropriation of assets (including the misuse of public money for private benefit) may be a more common type of fraud compared to fraudulent financial reporting. In addition, there may be more opportunities for third parties to commit fraud through grant programs, contracts and social welfare or benefit programs.

Example:

- Fraud risk factors may be present when an individual with a significant role in a public sector entity has the sole authority to commit the public sector entity to sensitive expenditure, including travel, accommodation, or entertainment, and that sensitive expenditure provides personal benefits to the individual.

Risks of Material Misstatement Due to Fraud Related to Management Override of Controls (Ref: Para. 40)

A117. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial report by overriding controls that otherwise appear to be operating effectively. Although the level of risks of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. See also paragraphs 47–52.

A118. In certain circumstances, the auditor may determine that the risks of material misstatement due to fraud related to management override of controls affect individual assertions and related significant classes of transactions, account balances and disclosures. In such cases, in addition

to the requirements in paragraphs 48–52, the auditor identifies these risks at the assertion level and designs and performs further audit procedures to address the assessed risks of material misstatement due to fraud at the assertion level in accordance with paragraph 46.

Examples:

- Based on the risk assessment procedures performed, the auditor identified an aggressive employee performance measure in management's incentive program related to the entities' profit and loss statement. Therefore, the auditor determined that risks of management override of controls also exist at the assertion level and identified a risk of material misstatement due to fraud related to management override of controls at the assertion level. The auditor determined that the risk relates to the completeness of expenses, as the calculation of the performance measure may be susceptible to manipulation from management via adjustments made to the expense accounts. In addition to the procedures performed as described in paragraphs 48–52, the auditor designed and performed further audit procedures to address this significant risk.
- Based on the risk assessment procedures performed, the auditor identified a pressure on management to meet the financial ratios for the entity's loan covenants to avoid insolvency. Therefore, the auditor identified a risk of material misstatement due to fraud related to management override of controls at the assertion level. The auditor determined that the risk relates to the valuation of inventory and completeness of liabilities, as the valuation methods may be susceptible to inappropriate adjustment by management or records may be manipulated to understate net liabilities. In addition to the procedures performed as described in paragraphs 48–52, the auditor designed and performed further audit procedures to address this significant risk.

Risks of Material Misstatement Due to Fraud in Revenue Recognition (Ref: Para. 41)

- A119. Material misstatement due to fraudulent financial reporting in revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may also result from an understatement of revenues through, for example, improperly deferring revenues to a later period.
- A120. The risks of material misstatement due to fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of listed entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of material misstatement due to fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales that present an opportunity for theft, or that have complex revenue recognition arrangements (e.g., licenses of intellectual property or percentage of completion) that are susceptible to management bias when determining percentage of completion for revenue recognition.
- A121. Understanding the entity's business and its environment, the applicable financial reporting framework and the entity's system of internal control helps the auditor understand the nature of the revenue transactions, the applicable revenue recognition criteria and the appropriate industry practice related to revenue. This understanding may assist the auditor in identifying events or conditions (see examples below) relating to the types of revenue, revenue transactions, or relevant assertions, that could give rise to fraud risk factors.

Examples:

- When there are changes in the financial reporting framework relating to revenue recognition, which may present an opportunity for management to commit fraudulent

financial reporting or bring to light the lack of (or significant deficiency in) controls for managing changes in the financial reporting framework.

- When an entity's accounting principles for revenue recognition are more aggressive than, or inconsistent with, its industry peers.
- When the entity operates in emerging industries.
- When revenue recognition involves complex accounting estimates.
- When revenue recognition is based on complex contractual arrangements with a high degree of estimation uncertainty, for example, construction-type or production-type contracts (e.g., tolling arrangements) and multiple-element arrangements.
- When contradictory evidence is obtained from performing risk assessment procedures.
- When the entity has a history of significant adjustments for the improper recognition of revenue (e.g., premature recognition of revenue).
- When circumstances indicate the recording of fictitious revenues.
- When circumstances indicate the omission of required disclosures or presentation of incomplete or inaccurate disclosures regarding revenue, for example, to manipulate the entity's financial performance due to pressures to meet investor / market expectations, or due to the incentive for management to maximise compensation linked to the entity's financial performance.
- When the entity is part of an unnecessarily complex structure increasing the risk of undisclosed transactions with related parties.

A122. If fraud risk factors related to revenue recognition are present, determining whether such fraud risk factors indicate a risk of material misstatement due to fraud is a matter of professional judgement. The significance of fraud risk factors (see paragraphs A109–A111) related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.

A123. There may be limited circumstances where it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where fraud risk factors are not significant.

Examples:

- Leasehold revenue from a single unit of rental property, or multiple rental properties, with a single tenant. Based on the risk assessment procedures performed, the auditor determined that leasehold revenue is not a key performance indicator for the lessor as it is predictable and stable. Therefore, there are no significant incentives or pressures related to leasehold revenue. The auditor also determined that the accounting is outsourced to an independent asset management company such that there are no significant opportunities for management to manipulate leasehold revenue.
- Simple or straightforward ancillary revenue sources, which are determined by fixed rates or externally published rates (e.g., interest or dividend revenue from investments with level 1 inputs). Based on the risk assessment procedures performed, the auditor determined that management's key performance indicators do not relate to interest or dividend revenue from investments such that there are no significant incentives or pressures related to the interest or dividend revenue from investments because the

transactions are recorded in a highly automated system with no significant opportunities for management to manipulate the interest or dividend revenue from investments.

- A124. Paragraph 67(d) specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.

Considerations Specific to Public Sector Entities

- A125. In public sector entities, there may be fewer incentives or pressures to engage in fraudulent financial reporting by intentionally overstating or understating revenue but there may be fraud risks related to expenditures, especially when such expenditures are subject to statutory limits.

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Unpredictability in the Selection of Audit Procedures (Ref: Para. 43)

- A126. Incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures to be performed is essential, particularly where individuals within the entity who are familiar with the audit procedures normally performed on engagements may be better positioned to conceal fraudulent financial reporting and misappropriation of assets. It is therefore important that the auditor maintains an open mind to new ideas or different perspectives when selecting the audit procedures to be performed to address the risks of material misstatement due to fraud.

Examples:

- Performing further audit procedures on selected classes of transactions, account balances or disclosures that were not determined to be material.
- Performing tests of detail where the auditor performed substantive analytical procedures in previous audits.
- Adjusting the timing of audit procedures from that otherwise expected.
- Using different sampling methods or using different approaches to stratify the population.
- Performing audit procedures at different locations or at locations on an unannounced basis.
- Performing substantive analytical procedures at a more detailed level or lowering thresholds when performing substantive analytical procedures for further investigation of unusual or unexpected relationships.
- Using automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation.

- A127. The extent to which the auditor chooses to incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures is a matter of professional judgement. The auditor may, when incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures, refer to Appendix 2 of this ASA for examples of possible audit procedures to use when addressing the assessed risks of material misstatement due to fraud.

Overall Responses (Ref: Para. 44)

A128. In accordance with paragraph 39(b), assessed risks of material misstatement due to fraud at the financial report level are also treated as significant risks. This has a significant bearing on the auditor's general approach and thereby the auditor's overall responses to such risks.

Examples:

- Increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions.
- Increased recognition of the need to corroborate management's explanations or representations concerning significant matters.
- Increased involvement of auditor's experts to assist the engagement team with complex or subjective areas of the audit.
- Changing the composition of the engagement team by, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Increasing the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- Using direct extraction methods or technologies when obtaining data from the entity's information system for use in automated tools and techniques to address the risk of data manipulation.
- Increased emphasis on tests of details.

Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level (Ref: Para. 46)

A129. In accordance with paragraph 39(b), assessed risks of material misstatement due to fraud are treated as significant risks. ASA 330 requires the auditor to obtain more persuasive evidence the higher the auditor's assessment of risk. When obtaining more persuasive audit evidence to respond to assessed risks of material misstatement due to fraud, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant and reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining audit evidence from a number of independent sources.

Examples:**Nature**

- The auditor identifies that management is under pressure to meet earnings expectations and accordingly there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery. In these circumstances, the auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmations with enquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

Timing

- The auditor may conclude that performing substantive testing at or near the period end better addresses an assessed risk of material misstatement due to fraud. The auditor may conclude that, given the assessed risks of intentional misstatement or

manipulation, audit procedures to extend audit conclusions from an interim date to the period end would not be effective. In contrast, because an intentional misstatement — for example, a misstatement involving improper revenue recognition — may have been initiated in an interim period, the auditor may elect to apply substantive procedures to transactions occurring earlier in or throughout the reporting period.

Extent

- The auditor may use automated tools and techniques to perform more extensive testing of digital information. Such automated techniques may be used to test all items in a population, select specific items for testing that are responsive to risks of material misstatement due to fraud, or select items for testing when performing audit sampling. For example, the auditor may stratify the population based on specific characteristics to obtain more relevant audit evidence that is responsive to the risks of material misstatement due to fraud.

External Confirmation Procedures

- A130. In applying ASA 330,⁶⁰ external confirmation procedures may be considered useful when seeking audit evidence that is not biased towards corroborating or contradicting a relevant assertion in the financial report, especially in instances where risks of material misstatement due to fraud have been identified related to the class of transactions, account balance or disclosure.
- A131. ASA 505⁶¹ requires the auditor to maintain control over the external confirmation requests and to evaluate the implications of management's refusal to allow the auditor to send a confirmation request. If the auditor is unable to maintain control over the confirmation process or obtains an unsatisfactory response as to why management refuses to allow the auditor to send a confirmation request, as applicable, then this may be an indication of a fraud risk factor.
- A132. The use of external confirmation procedures may be more effective or provide more persuasive audit evidence over the terms and conditions of a contractual agreement.

Example:

The auditor may request confirmation of the contractual terms for a specific class of revenue transactions, such as pricing, payment and discount terms, applicable guarantees and the existence, or absence, of any side agreements.

- A133. ASA 505⁶² includes factors that may indicate doubts about the reliability of a response to an external confirmation request, since all responses carry some risk of interception, alteration, or fraud. This may be the case when the response to a confirmation request:
- Is sent from an e-mail address that is not recognised.
 - Does not include the original electronic mail chain or any other information indicating that the confirming party is responding to the auditor's confirmation request.
 - Contains unusual restrictions or disclaimers.

⁶⁰ See ASA 330, paragraph 19.

⁶¹ See ASA 505, *External Confirmations*, paragraphs 7 and 8.

⁶² See ASA 505, paragraph A11.

- A134. ASA 505⁶³ includes guidance for the auditor when a response to a confirmation request indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

Example:

A response to a bank confirmation request indicated that a bank account, in the name of wholly owned subsidiary incorporated in an offshore financial centre, did not exist. Upon investigating the exception, the auditor determined that the entity misstated its financial report by overstating its cash balance.

Examples of Other Further Audit Procedures

- A135. Examples of possible audit procedures to address the assessed risks of material misstatement due to fraud are presented in Appendix 2. The Appendix includes examples of responses to the auditor's assessment of the risks of material misstatement resulting from both fraudulent financial reporting, including fraudulent financial reporting resulting from revenue recognition, and misappropriation of assets.

Audit Procedures Responsive to Risks of Material Misstatement Due to Fraud Related to Management Override of Controls**Journal Entries and Other Adjustments (Ref: Para. 48–49)****Why the testing of journal entries and other adjustments is performed**

- A136. Material misstatements of the financial report due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorised journal entries in the general ledger and other adjustments. This may occur throughout the year or at period end, or by management making adjustments to amounts reported in the financial report that are not reflected in journal entries, such as through consolidation adjustments and reclassifications.
- A137. Testing the appropriateness of journal entries recorded in the general ledger and other adjustments (e.g., entries made directly to the financial report such as eliminating adjustments for transactions, unrealised profits and intra-group account balances at the group level) may assist the auditor in identifying fraudulent journal entries and other adjustments.
- A138. The auditor's consideration of the risks of material misstatement associated with management override of controls over journal entries⁶⁴ is important because automated processes and controls may reduce the risk of inadvertent error but do not overcome the risk that management may inappropriately override such automated processes and controls, for example, by changing the amounts being automatically posted in the general ledger or to the financial reporting system. Further, where IT is used to transfer information automatically, there may be little or no visible evidence of such intervention in the information systems.
- A139. In planning the audit,⁶⁵ drawing on the experience and insight of the engagement partner or other key members of the engagement team may be helpful in designing audit procedures to test the appropriateness of journal entries and other adjustments (e.g., to address the risks of management override of controls), including planning for the appropriate resources, and determining the nature, timing and extent of the related direction, supervision, and review of the work being performed.

⁶³ See ASA 505, paragraphs 14 and A21–A22.

⁶⁴ See ASA 315, paragraph 26(a)(ii).

⁶⁵ See ASA 300, *Planning an Audit of a Financial Report*, paragraphs 5, 9 and 12.

Obtaining audit evidence about the completeness of the population of journal entries and other adjustments (Ref: Para. 49(b))

- A140. The population of journal entries may include manual adjustments, or other “top-side” adjustments that are made directly to the amounts reported in the financial report. Failing to obtain audit evidence about the completeness of the population may limit the effectiveness of the audit procedures in responding to the risks of management override of controls associated with fraudulent journal entries and other adjustments.

Selecting journal entries and other adjustments (Ref: Para. 49(c) and 49(d))

- A141. Prior to selecting items to test, the auditor may need to consider whether the integrity of the population of journal entries and other adjustments has been maintained throughout all stages of information processing based on the auditor’s understanding and evaluation of the entity’s information system and control activities (e.g., general IT controls that safeguard and maintain the integrity of financial information) in accordance with the requirements of ASA 315.⁶⁶
- A142. The auditor’s understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control may assist the auditor in selecting journal entries and other adjustments for testing.

Examples:

The process of selecting journal entries and other adjustments for testing may be enhanced if the auditor leverages insights based on the auditor’s understanding about:

- How the financial report (including events and transactions) may be susceptible to material misstatement due to fraud, particularly in areas where fraud risk factors are present.
- The application of accounting principles and methods that may be susceptible to material misstatement due to management bias.
- Deficiencies in internal control that present opportunities for those charged with governance, management, or others within the entity to commit fraud.

- A143. Appendix 4 provides additional considerations that may be used by the auditor when selecting journal entries and other adjustments for testing.

Timing of testing journal entries and other adjustments (Ref: Para. 49(c) and 49(d))

- A144. Fraudulent journal entries and other adjustments are often made at the end of a reporting period; consequently, paragraph 49(c) requires the auditor to select journal entries and other adjustments made at that time.

Example:

- Among the journal entries and other adjustments most susceptible to management override of controls are manual adjusting journal entries and other adjustments directly made to the financial report that occur after the closing of a financial reporting period and have little or no explanatory support.

- A145. Paragraph 49(d) requires the auditor to determine whether there is also a need to test journal entries and other adjustments throughout the period because material misstatements due to

⁶⁶ See ASA 315, paragraphs 25–26.

fraud can occur throughout the period and may involve extensive efforts to conceal how the fraud is accomplished.

Examples:

- Risks of material misstatement that may be strongly linked to fraud schemes that can occur over a long period of time (e.g., complex related party transaction structures that may obscure their economic substance).
- Anomalies or outliers in the journal entry data throughout the period that may be detected from the use of automated tools and techniques.

Examining the underlying support for journal entries and other adjustments selected (Ref: Para. 49(c) and 49(d))

A146. When testing the appropriateness of journal entries and other adjustments, the auditor may need to obtain and examine supporting documentation to determine the business rationale for recording them, including whether the recording of the journal entry reflects the substance of the transaction and complies with the applicable financial reporting framework.

Considering the use of automated tools and techniques when testing journal entries and other adjustments (Ref: Para. 49(b) and 49(c))

A147. The auditor may consider the use of automated tools and techniques when testing journal entries and other adjustments (e.g., determining the completeness of the population or selecting items to test). Such consideration may be impacted by the entity's use of technology in processing journal entries and other adjustments.

Accounting Estimates (Ref: Para. 50–51)

Why the review of accounting estimates for management bias is performed

A148. The preparation of the financial report requires management to make a number of judgements or assumptions that affect accounting estimates and to monitor the reasonableness of such estimates on an ongoing basis. Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates. For example, this may be achieved by understating or overstating provisions or reserves so as to be designed either to smooth earnings over two or more accounting periods, or to achieve a designated earnings level in order to deceive financial report users by influencing their perceptions as to the entity's performance and profitability.

A149. ASA 315 provides guidance that management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgement (i.e., indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional.⁶⁷

Indicators of possible management bias

A150. ASA 540⁶⁸ includes a requirement and related application material addressing indicators of possible management bias.

Examples:

Indicators of possible management bias in how management made the accounting estimates that may represent a risk of material misstatement due to fraud include:

⁶⁷ See ASA 315, paragraph 2 of Appendix 2.

⁶⁸ See ASA 540, paragraphs 32 and A133–A136.

- Changes in methods, significant assumptions, sources, or items of data selected that are not based on new circumstances or new information, which may not be reasonable in the circumstances nor in compliance with the applicable financial reporting framework.
- Adjustments, made to the output of the model(s), that are not appropriate in the circumstances when considering the requirements of the applicable financial reporting framework.

A151. The auditor may use automated tools and techniques to review accounting estimates for management bias.

Examples:

- Analysing the activity in an estimate account during the year and comparing it to the current and prior period estimates.
- Benchmarking assumptions used for the estimate, using data visualisation to understand the location of point estimates within the range of acceptable outcomes.
- Using predictive analytics to identify the likelihood of future outcomes based on historical data.

A152. If there are indicators of possible management bias that may be intentional, the auditor may consider it appropriate to involve individuals with forensic skills in performing the review of accounting estimates for management bias in accordance with paragraphs 50–51. Applying forensic skills through analysing accounting records, conducting interviews, reviewing internal and external communications, investigating related party transactions, or reviewing internal controls may also assist the auditor in evaluating whether the indicators of possible management bias represent a material misstatement due to fraud.

Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual (Ref: Para. 52)

A153. Indicators that may suggest that significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual, may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets include:

- The form of such transactions appears overly complex (e.g., the transaction involves multiple entities within a consolidated group or multiple unrelated third parties).
- Management has not discussed the nature of and accounting for such transactions with those charged with governance of the entity, and there is inadequate documentation.
- Management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- Transactions that involve non-consolidated related parties, including special purpose entities, have not been properly reviewed or approved by those charged with governance of the entity.
- Unusual activities with no logical business rationale.
- The transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity under audit.

Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion (Ref: Para. 53)

A154. ASA 520 explains that the analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial report.⁶⁹ However, the auditor may perform the analytical procedures at a more granular level for certain higher risk classes of transactions, account balances, and disclosures to determine whether certain trends or relationships may indicate a previously unidentified risk of material misstatement due to fraud. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud requires professional judgement. Unusual relationships involving year-end revenue and income are particularly relevant.

Examples:

- Uncharacteristically large amounts of income being reported in the last few weeks of the reporting period.
- Unusual transactions.
- Income or expenses that is inconsistent with trends in cash flow from operations:
 - Uncharacteristically low amounts of revenue or expenses at the start of the subsequent period; or
 - Uncharacteristically high levels of refunds or credit notes at the start of the subsequent period.

A155. The auditor may use automated tools and techniques to identify unusual or inconsistent transaction posting patterns in order to determine if there is a previously unrecognised risk of material misstatement due to fraud.

Fraud or Suspected Fraud (Ref: Para. 54–57)

A156. If the auditor identifies fraud or suspected fraud, the firm's policies or procedures may include actions for the engagement partner to take, depending on the facts and circumstances of the audit engagement and the nature of the fraud.

Examples:

- Consulting with others in the firm.
- Obtaining legal advice from external counsel to understand the engagement partner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality).

A157. In accordance with ASA 220,⁷⁰ the engagement partner is required to take responsibility for making the engagement team aware of the firm's policies or procedures related to relevant ethical requirements. This includes the responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity, which includes instances of fraud.

⁶⁹ See ASA 520, paragraphs A17–A19.

⁷⁰ See ASA 220, paragraph 17(c).

Obtaining an Understanding of the Fraud or Suspected Fraud

- A158. The determination of which level of management is the appropriate one is a matter of professional judgement and is affected by such factors as the likelihood of collusion and the nature and magnitude of the suspected fraud. Ordinarily, the appropriate level of management is at least one level above the persons who appear to be involved with the fraud or suspected fraud.
- A159. When obtaining an understanding of the fraud or suspected fraud, the auditor may do one or more of the following depending on the facts and circumstances of the audit engagement and the nature of the fraud:
- Involve an auditor's expert, such as an individual with forensic skills.
 - Inspect the entity's whistleblower program files for additional information.
 - Make further enquiries of:
 - The entity's in-house counsel or external legal counsel.
 - Individuals within the internal audit function (if the function exists).

Evaluating the Entity's Process to Investigate and Remediate the Fraud or Suspected Fraud

- A160. The nature and extent of the entity's process to investigate the fraud or suspected fraud undertaken by management or those charged with governance may vary based on the circumstances, and may be influenced by the entity's assessment of the significance of fraud risks relevant to the entity's financial reporting objectives. For example, an entity's whistleblower program (or other program to report fraud) may set out policies or procedures to be followed in relation to investigation and remediation of matters, including the establishment of thresholds for taking further action.

Examples:

- New allegations of fraud were made by a disgruntled former employee. Management followed the policies and procedures in place at the entity and referred the matter to the legal and human resources departments. Since the entity's policies and procedures were followed and prior allegations with similar facts and circumstances had been investigated and determined to be without merit, management determined that no further action was necessary.
- A suspected fraud involving a senior member of management was reported to those charged with governance by an employee. As a result, those charged with governance followed the policies and procedures in place at the entity, including engaging a certified fraud examiner to perform an independent forensic investigation.

- A161. When evaluating the appropriateness of the entity's investigation process and remedial actions implemented to respond to the fraud or suspected fraud in accordance with paragraphs 54(b) and 54(c), the auditor may consider:
- In relation to the entity's process to investigate the fraud or suspected fraud:
 - The objectivity and competence of individuals involved in the entity's process to investigate the fraud or suspected fraud.
 - The nature, timing and extent of procedures to investigate the fraud or suspected fraud, including identification of root causes, if applicable.
 - In relation to the entity's actions to remediate the fraud or suspected fraud:

- Whether the remedial actions address the root cause(s).
- Whether the remedial actions are proportionate to the severity and pervasiveness of the identified fraud or suspected fraud and the urgency with which the matter needs to be addressed, including how management:
 - ◆ Responded to any misstatements that were identified (e.g., the timeliness of when the identified misstatements were corrected by management).
 - ◆ Responded to the fraud (e.g., disciplinary, or legal sanctions imposed on the individuals involved in perpetrating the fraud).
 - ◆ Addressed the control deficiencies regarding the prevention or detection of the fraud.

A162. The auditor may use information obtained from their understanding of the entity's whistleblower program in accordance with paragraph 32(a)(ii), including the entity's process for investigating and remediating allegations of fraud that came through the entity's whistleblower program, to determine whether a fraud or suspected fraud is clearly inconsequential.

Example:

- Based on an understanding of the suspected fraud obtained through understanding the entity's whistleblower program, the engagement partner determined the suspected fraud was clearly inconsequential because it was limited to the misappropriation of immaterial assets by employees.

Impact on the Overall Audit Strategy

A163. The understanding obtained about the fraud or suspected fraud impacts the engagement partner's determination of whether and how to adjust the overall audit strategy, including determining whether there is a need to perform additional risk assessment procedures or further audit procedures, especially in circumstances when information comes to the engagement partner's attention that differs significantly from the information available when the overall audit strategy was originally established.⁷¹

A164. As described in ASA 220,⁷² in fulfilling the requirement in paragraph 55, the engagement partner may obtain information from other members of the engagement team (e.g., component auditors).

A165. Based on the understanding obtained about the fraud or suspected fraud and the impact on the overall audit strategy, the engagement partner may determine that it is necessary to discuss an extension of the audit reporting deadlines with management and those charged with governance, where an extension is possible under applicable law or regulation. If an extension is not possible, ASA 705 deals with the implications for the auditor's opinion on the financial report.

Example:

- Based on an understanding of the suspected fraud, the engagement partner believed the integrity of management was in question. Given the significance and pervasiveness of the matter, the engagement partner determined that no further work

⁷¹ See ASA 300, paragraphs 10 and A15.

⁷² See ASA 220, paragraph 9.

was to be performed across the entire audit engagement until the matter had been appropriately resolved.

The Auditor Identifies a Misstatement Due to Fraud

- A166. ASA 450⁷³ and ASA 700⁷⁴ establish requirements and provide guidance on the evaluation of misstatements and the effect on the auditor's opinion in the auditor's report.
- A167. The following are examples of qualitative or quantitative circumstances that may be relevant when determining whether the misstatement due to fraud is material:

Examples:

Qualitative circumstances include whether a misstatement:

- Involves those charged with governance, management, related parties, or third parties that brings into question the integrity or competence of those involved.
- Affects compliance with law or regulation which may also affect the auditor's consideration of the integrity of management, those charged with governance or employees.
- Affects compliance with debt covenants or other contractual requirements which may cause the auditor to question the pressures being exerted on management to meet certain earnings expectations.

Quantitative circumstances include whether a misstatement:

- Affects key performance indicators such as earnings per share, net income and working capital, that may have a negative effect on the calculation of compensation arrangements for senior management at the entity.
- Affects multiple reporting periods such as when a misstatement has an immaterial effect on the current period's financial report but is likely to have a material effect on future periods' financial report.

- A168. The implications of an identified misstatement due to fraud on the reliability of information intended to be used as audit evidence depends on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of information previously obtained and intended to be used as audit evidence may be called into question as there may be doubts about the completeness and truthfulness of representations made and about the authenticity of accounting records and documentation.
- A169. Since fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so or some rationalisation of the act, an instance of fraud is unlikely to be an isolated occurrence. Misstatements, such as numerous misstatements at a business unit or geographical location even though the cumulative effect is not material, may also be indicative of a risk of material misstatement due to fraud.

Considerations Specific to Public Sector Entities

- A170. For public sector entities, an example of both qualitative and quantitative circumstance includes whether a misstatement affects the determination of the surplus or deficit reported for

⁷³ See ASA 450, *Evaluation of Misstatements Identified during the Audit*.

⁷⁴ See ASA 700, *Forming an Opinion and Reporting on a Financial Report*.

the period, or whether or not the public sector entity has met or exceeded its approved budget, including where relevant, whether its expenses are within statutory limits.

Determining if Control Deficiencies Exist

A171. ASA 265⁷⁵ provides requirements and guidance about the auditor's communication of significant deficiencies in internal control identified during the audit to those charged with governance. Examples of matters that the auditor considers in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

- The susceptibility to loss due to fraud of the related asset or liability.
- The importance of the controls to the financial reporting process (e.g., controls over the prevention and detection of fraud).

A172. Indicators of significant deficiencies in internal control include, for example:

- Evidence of ineffective aspects of the control environment, such as the identification of management fraud, whether or not material, that was not prevented by the entity's system of internal control.
- The lack of a process to investigate the fraud or suspected fraud or a process to investigate the fraud or suspected fraud that is not appropriate in the circumstances.
- The lack of, or ineffective, remediation measures implemented by management to prevent or detect the reoccurrence of the fraud or suspected fraud.

Auditor Unable to Continue the Audit Engagement (Ref: Para. 58)

A173. Examples of exceptional circumstances that may arise and that may bring into question the auditor's ability to continue performing the audit include:

- The entity does not take the appropriate action regarding fraud that the auditor considers necessary in the circumstances, even where the fraud is not material to the financial report;
- The auditor's consideration of the risks of material misstatement due to fraud or the results of audit procedures performed indicate a material and pervasive fraud; or
- The auditor has significant concern about the competence or integrity of management or those charged with governance.

A174. Because of the variety of circumstances that may arise, it is not possible to describe definitively when withdrawal from an engagement is appropriate. Factors that affect the auditor's conclusion include the implications of the involvement of a member of management or of those charged with governance (which may affect the reliability of management representations) and the effects on the auditor of a continuing association with the entity.

A175. The auditor has professional and legal responsibilities in such circumstances and these responsibilities may vary by jurisdiction. In some countries, for example, the auditor may be entitled to, or required to, make a statement or report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities. Given the exceptional nature of the circumstances and the need to consider the legal requirements, the auditor may consider it appropriate to seek legal advice when deciding whether to withdraw from an engagement and

⁷⁵ See ASA 265, paragraphs 8 and A6–A7.

in determining an appropriate course of action, including the possibility of reporting to shareholders, regulators or others.⁷⁶

- Aus A175.1 For an audit engagement under the *Corporations Act 2001* (the Act), the possibility of withdrawing from the engagement or resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain circumstances, obtaining consent to resign from the Australian Securities and Investments Commission (ASIC).

Considerations Specific to Public Sector Entities

- A176. In many cases in the public sector, the option of withdrawing from the engagement may not be available to the auditor due to the nature of their legal mandate, based on public interest considerations.

Auditor's Report (Ref: Para. 59–61)

Determining Key Audit Matters Related to Fraud

- A177. Users of the financial report are interested in matters related to fraud about which the auditor had a robust dialogue with those charged with governance. The considerations in paragraph 59 focus on the nature of matters communicated with those charged with governance that are intended to reflect matters related to fraud that may be of particular interest to intended users.
- A178. In addition to matters that relate to the specific required considerations in paragraph 59, there may be other matters related to fraud communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 60.
- A179. Matters related to fraud are often matters that require significant auditor attention. For example, the identification of fraud or suspected fraud may require significant changes to the auditor's risk assessment and re-evaluation of the planned audit procedures (i.e., a significant change in the audit approach).
- A180. The determination of key audit matters involves making a judgement 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 report of a listed entity would not determine at least one key audit matter related to fraud. However, in certain limited circumstances, the auditor may determine that there are no matters related to fraud that are key audit matters in accordance with paragraph 60.
- A181. Accounting estimates are often the most complex areas of the financial report because they may be dependent on significant management judgement. Significant auditor attention may be required in accordance with paragraph 59(a) to respond to assessed risks of material misstatement due to fraud associated with an accounting estimate that involves significant management judgement. Significant management judgement is often involved when an accounting estimate is subject to a high degree of estimation uncertainty and subjectivity.

Example:

The auditor determines significant auditor attention was required to respond to the risk of material misstatement due to fraud associated with the entity's estimate of expected credit losses. Management utilises a model that requires a complex set of assumptions about future developments in a variety of entity-specific scenarios that are difficult to predict. Based on the auditor's identification of aggressive profitability expectations of investment analysts about the entity, the auditor identified a risk of material misstatement due to fraud because of the

⁷⁶ The Code, paragraphs 320.5 A1–R320.8, provides requirements and application material on communications with the existing or predecessor accountant, or the proposed accountant.

subjectivity involved in the expected credit losses estimate and the incentive this creates for intentional management bias.

- A182. ASA 265 requires the auditor to communicate a significant deficiency in internal control to those charged with governance that is relevant to the prevention and detection of fraud. Significant deficiencies may exist even though the auditor has not identified misstatements during the audit. For example, the lack of a whistleblower program (or other program to report fraud) may be indicative of deficiencies in the entity's control environment, but it may not directly relate to a risk of material misstatement due to fraud. The auditor may also communicate these deficiencies to management.
- A183. This ASA requires management override of controls to be a risk of material misstatement due to fraud (see paragraph 40) and presumes that there are risks of material misstatement due to fraud in revenue recognition (see paragraph 41). 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 that certain risks of material misstatement due to fraud did 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 60.
- A184. As described in ASA 701,⁷⁷ the auditor's decision-making process in determining key audit matters is based on the auditor's professional judgement about which matters were of most significance in the audit of the financial report of the current period. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.⁷⁸
- A185. One of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users' understanding of the financial report as a whole.⁷⁹ As users of the financial report are interested in matters related to fraud, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 59, would ordinarily be of most significance in the audit of the financial report of the current period and therefore are key audit matters.
- A186. ASA 701⁸⁰ includes other considerations that may be relevant to determining which matters related to fraud that required significant auditor attention, were of most significance in the current period and therefore are key audit matters.

Communicating Key Audit Matters Related to Fraud

- A187. If a matter related to fraud is determined to be a key audit matter and there are a number of separate, but related, considerations that were of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes the matter, including that it relates to fraud.
- A188. Relating a matter directly to the specific circumstances of the entity may help to minimise the potential that such descriptions become overly standardised and less useful over time. In

⁷⁷ See ASA 701, paragraph 10.

⁷⁸ See ASA 701, paragraph A1.

⁷⁹ See ASA 701, paragraph A29.

⁸⁰ See ASA 701, paragraph A29.

describing why the auditor considered the matter to be one of most significance in the audit, the auditor may highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgements made in the financial report of the current period) so as to make the description more relevant for intended users. This may be particularly important in describing a key audit matter that recurs over multiple periods. Similarly, in describing how the key audit matter related to fraud was addressed in the audit, the auditor may highlight matters directly related to the specific circumstances of the entity, while avoiding generic or standardised language.

- A189. ASA 701⁸¹ includes considerations and guidance on original information (information about the entity that has not otherwise been made publicly available by the entity) that may be particularly relevant in the context of communicating key audit matters related to fraud.
- A190. ASA 701⁸² describes that management or those charged with governance may decide to include new or enhanced disclosures in the financial report or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about identified fraud or suspected fraud or identified deficiencies in internal control that are relevant to the prevention and detection of fraud.

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

- A191. ASA 701, paragraph 14(b), indicates that it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report and includes guidance on circumstances in which such a matter determined to be a key audit matter is not communicated in the auditor's report. For example:
- Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter.
 - There is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgement not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.⁸³
- A192. 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.⁸⁴ 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.

Written Representations (Ref: Para. 62)

- A193. ASA 580⁸⁵ establishes requirements and provides guidance on obtaining appropriate representations from management and, where appropriate, those charged with governance in the audit. Although written representations are an important source of audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. In addition, since management are in a unique position to perpetrate fraud, it

⁸¹ See ASA 701, paragraphs A34–A36.

⁸² See ASA 701, paragraph A37.

⁸³ See ASA 701, paragraphs A53–A54.

⁸⁴ For example, except for certain specified circumstances, paragraph R114.2 of the 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 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 Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

⁸⁵ See ASA 580, *Written Representations*.

is important for the auditor to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence in drawing the conclusion required in accordance with ASA 330.⁸⁶

- A194. ASA 580⁸⁷ also addresses circumstances when the auditor has doubt as to the reliability of written representations, including if written representations are inconsistent with other audit evidence. Doubts about the reliability of information from management may indicate a risk of material misstatement due to fraud.

Communications with Management and Those Charged with Governance (Ref: Para. 63–65)

- A195. In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

- Aus A195.1 Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a person regarding contraventions or possible contraventions of the law.* In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or those charged with governance in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement.

Communication with Management (Ref: Para. 63)

- A196. If the auditor identifies fraud or suspected fraud, it is important that the matter be brought to the attention of the appropriate level of management as soon as practicable, even if the matter may be considered clearly inconsequential (e.g., a minor misappropriation of funds by an employee at a low level in the entity's organisation).

Communication with Those Charged with Governance (Ref: Para. 64)

- A197. The auditor's communication with those charged with governance may be made orally or in writing. ASA 260 identifies factors the auditor considers in determining whether to communicate orally or in writing.⁸⁸ Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the financial report, the auditor reports such matters on a timely basis and may consider it necessary to also report such matters in writing.
- A198. In some cases, the auditor may consider it appropriate to communicate with those charged with governance fraud or suspected fraud involving others that the auditor determined to be clearly inconsequential. Similarly, those charged with governance may wish to be informed of such circumstances. The communication process is assisted if the auditor and those charged with governance agree at an early stage in the audit about the nature and extent of the auditor's communications in this regard.

⁸⁶ See ASA 330, paragraph 26.

⁸⁷ See ASA 580, paragraphs 16–18.

* See, for example, the *Corporations Act 2001*, Part 9.4AAA Protection for Whistleblowers.

⁸⁸ See ASA 260, paragraph A38.

A199. In the exceptional circumstances where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to obtain legal advice to assist in determining the appropriate course of action.

Other Matters Related to Fraud (Ref: Para. 65)

A200. Other matters related to fraud to be discussed with those charged with governance of the entity may include, for example:

- Concerns about the nature, extent, and frequency of management's assessments of the controls in place to prevent or detect fraud and of the risk that the financial report may be misstated.
- A failure by management to appropriately address identified significant deficiencies in internal control, or to appropriately respond to an identified fraud.
- The auditor's evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial report users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorisation of transactions that appear to be outside the normal course of business.

Reporting to an Appropriate Authority Outside the Entity (Ref: Para. 66)

A201. The reporting may be to applicable regulatory, enforcement, supervisory or other appropriate authority outside the entity.

A202. ASA 250⁸⁹ provides further guidance with respect to the auditor's determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor's duty of confidentiality.⁹⁰

Aus A202.1 An auditor is required by the Corporations Act 2001 to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances.*

A203. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, when not prohibited by law, regulation, or relevant ethical requirements, may include:

- Any views expressed by regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
- Whether reporting the matter would be acting in the public interest.

A204. Reporting fraud matters to an appropriate authority outside the entity may involve complex considerations and professional judgements. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a

⁸⁹ See ASA 250, paragraphs A28–A34.

⁹⁰ For example, paragraph R114.3 of the Code permits the professional accountant to disclose or use confidential information where there is a legal or professional right to do so. Paragraph 114.3 A1(b)(iv) of the Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

* See ASIC Regulatory Guide 34 *Auditor's obligations: reporting to ASIC* (March 2020), which provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the *Corporations Act 2001*, to report contraventions and suspected contraventions to ASIC.

regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

Considerations Specific to Public Sector Entities

- A205. In the public sector, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of the audit mandate or related law, regulation, or other authority.

Documentation (Ref: Para. 67)

- A206. ASA 230⁹¹ addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.

Draft

⁹¹ See ASA 230, paragraphs 11 and A15.

Appendix 1

(Ref: Para. A25 and A42)

Examples of Fraud Risk Factors

The fraud risk factors identified in this Appendix are examples of such factors that may be faced by auditors in a broad range of situations. Separately presented are examples relating to the two types of fraud relevant to the auditor's consideration — that is, fraudulent financial reporting and misappropriation of assets. For each of these types of fraud, the risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalisations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different size or with different ownership characteristics or circumstances. Also, the order of the examples of risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, geopolitical, or entity operating conditions, such as (or as indicated by):

- High degree of competition or market saturation, accompanied by declining margins.
- High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.
- Increased volatility in financial and commodity markets due to fluctuations in interest rates and inflationary trends.
- Significant declines in customer demand and increasing business failures in either the industry or overall economy.
- Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.
- Rapid growth or unusual profitability especially compared to that of other companies in the same industry.
- New accounting, statutory, or regulatory requirements.
- Pandemics or wars triggering major disruptions in the entity's operations, financial distress and severe cashflow shortages.
- Economic sanctions imposed by governments and international organisations against a jurisdiction, including its companies and products.

Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:

- Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages.
- Need to obtain additional debt or equity financing, or qualify for government assistance or incentives, to avoid bankruptcy or foreclosure, or to stay competitive — including financing of major research and development or capital expenditures.
- Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements.
- Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as initial public offerings, mergers and acquisitions, business combinations or contract awards.
- Management enters into significant transactions that places undue emphasis on achieving key performance indicators to stakeholders (e.g., meeting earnings per share forecasts or maintaining the stock price).
- Negative media attention on the entity or key members of management.

Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following:

- Significant financial interests in the entity.
- Significant portions of their compensation (e.g., bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, cash flow, or other key performance indicators.⁹²
- Personal guarantees of debts of the entity.

There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals.

Considerations Specific to Public Sector Entities

- Public sector entities subject to statutory limits on their spending may result in inaccurate reporting of expenditure incurred.

Opportunities

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:

- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgements or uncertainties that are difficult to corroborate.
- Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.

⁹² Management incentive plans may be contingent upon achieving targets relating only to certain accounts or selected activities of the entity, even though the related accounts or activities may not be material to the entity as a whole.

- Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.
- Use of business intermediaries for which there appears to be no clear business justification.
- Modifying, revoking, or amending revenue contracts through the use of side agreements that are typically executed outside the recognised business process and reporting channels.
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.
- Non-traditional entry to capital markets by the entity, for example, through an acquisition by, or merger with, a special-purpose acquisition company.
- Aggressive stock promotions by the entity through press releases, investment newsletters, website coverage, online advertisements, email, or direct mail.

The monitoring of management is not effective as a result of the following:

- Domination of management by a single person or small group (in a non-owner-managed business) without compensating controls.
- Oversight by those charged with governance over the financial reporting process and internal control is not effective.
- Weakened control environment triggered by a shift in focus by management and those charged with governance to address more immediate needs of the business such as financial and operational matters.

There is a complex or unstable organisational structure, as evidenced by the following:

- Difficulty in determining the organisation or individuals that have controlling interest in the entity.
- Overly complex organisational structure involving unusual legal entities or managerial lines of authority.
- Overly complex IT environment relative to the nature of the entity's business, legacy IT systems from acquisitions that were never integrated into the entity's financial reporting system, or ineffective IT general controls.
- High turnover of senior management, legal counsel, or those charged with governance.

Deficiencies in internal control as a result of the following:

- Inadequate process to monitor the entity's system of internal control, including automated controls and controls over interim financial reporting (where external reporting is required).
- Inadequate fraud risk management program, including lack of a whistleblower program.
- Inadequate controls due to changes in the current environment, for example, increased data security risks from using unsecured networks that makes the entity's data and information more vulnerable to cybercrime.
- High turnover rates or employment of staff in accounting, IT, or the internal audit function that are not effective.
- Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

Attitudes/Rationalisations

- Management and those charged with governance have not created a culture of honesty and ethical behaviour. For example, communication, implementation, support, or enforcement of the entity's values or ethical standards by management and those charged with governance are not effective, or the communication of inappropriate values or ethical standards.
- Non-financial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates.
- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations, including those dealing with corruption, bribery, and money laundering.
- Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend.
- The practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts.
- Management and those charged with governance demonstrate an unusually high tolerance to risk or display an unusually high standard of lifestyle, a pattern of significant personal financial issues, or frequently engage in high-risk activities.
- Management and those charged with governance make materially false or misleading statements in other information included in the entity's annual report (e.g., key aspects of the entity's business, products, or technology).
- Management failing to remedy known significant deficiencies in internal control on a timely basis.
- An interest by management in employing inappropriate means to minimise reported earnings for tax- motivated reasons.
- Applying aggressive valuation assumptions in mergers and acquisitions to support high purchase prices or overvalue acquired intangible assets.
- Rationalising the use of unreasonable assumptions affecting the timing and amount of revenue recognition, for example, in an attempt to alleviate the negative effects of severe economic downturns.
- Rationalising the use of unreasonable assumptions used in projections to account for impairment of goodwill and intangible assets, for example, to avoid recognising significant impairment losses.
- Low morale among senior management.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality.
- The relationship between management and the current or predecessor auditor is strained, as exhibited by the following:
 - Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.

- Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report.
- Restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.
- Domineering management behaviour in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement.

Risk Factors Relating to Misstatements Arising from Misappropriation of Assets

Risk factors that relate to misstatements arising from misappropriation of assets are also classified according to the three conditions generally present when fraud exists: incentives/pressures, opportunities, and attitudes/rationalisation. Some of the risk factors related to misstatements arising from fraudulent financial reporting also may be present when misstatements arising from misappropriation of assets occur. For example, ineffective monitoring of management and other deficiencies in internal control may be present when misstatements due to either fraudulent financial reporting or misappropriation of assets exist. The following are examples of risk factors related to misstatements arising from misappropriation of assets.

Incentives/Pressures

Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.

Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:

- Known or anticipated future employee layoffs.
- Recent or anticipated changes to employee compensation or benefit plans.
- Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:

- Large amounts of cash on hand or processed.
- Inventory items that are small in size, of high value, or in high demand.
- Easily convertible assets, such as bearer bonds, diamonds, or computer chips.
- Fixed assets that are small in size, marketable, or lacking observable identification of ownership.

Inadequate controls over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks.
- Inadequate oversight of senior management expenditures, such as travel and other re-imbursements.
- Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations.

- Inadequate job applicant screening of employees with access to assets.
- Inadequate record keeping with respect to assets.
- Inadequate system of authorisation and approval of transactions (e.g., in purchasing).
- Inadequate physical safeguards over cash, investments, inventory, or fixed assets.
- Lack of complete and timely reconciliations of assets.
- Lack of timely and appropriate documentation of transactions, for example, credits for merchandise returns.
- Lack of mandatory vacations for employees performing key control functions.
- Inadequate management understanding of IT, which enables IT employees to perpetrate a misappropriation.
- Inadequate access controls over automated records, including controls over and review of computer systems event logs.
- Inadequate controls in supplier management, including changes in the supply chain, that may expose the entity to fictitious suppliers, or unvetted suppliers that pay kickbacks or are involved in other fraudulent or illegal activities.
- Lack of oversight by those charged with governance over how management utilised financial aid from governments and local authorities (e.g., bailouts during pandemics, wars, or impending industry collapse).

Considerations Specific to Public Sector Entities

- Trust funds under administration – public sector entities often manage assets on behalf of others, including vulnerable individuals, which can be more susceptible to misuse.
- The nature of certain revenue transactions (e.g., taxes and grants) may provide a greater opportunity to manipulate the timing or amount of revenue recognised in the current period.

Attitudes/Rationalisations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for controls over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control.
- Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee.
- Changes in behaviour or lifestyle that may indicate assets have been misappropriated.
- Tolerance of petty theft.
- Rationalising misappropriations committed during severe economic downturns by intending to pay back the entity when circumstances return to normal.

Appendix 2

(Ref: Para. A58, A125 and A133)

Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud

The following are examples of possible audit procedures to address the assessed risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets. Although these procedures cover a broad range of situations, they are only examples and, accordingly they may not be the most appropriate nor necessary in each circumstance. Also, the order of the procedures provided is not intended to reflect their relative importance.

Consideration at the Assertion Level

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- Visiting locations or performing certain tests on a surprise or unannounced basis. For example, observing inventory at locations where auditor attendance has not been previously announced or counting cash at a particular date on a surprise basis.
- Requesting that inventories be counted at the end of the reporting period or on a date closer to period end to minimise the risk of manipulation of balances in the period between the date of completion of the count and the end of the reporting period.
- Altering the audit approach in the current year. For example, contacting major customers and suppliers orally in addition to sending written confirmation, sending confirmation requests to a specific party within an organisation, or seeking more or different information.
- Performing a detailed review of the entity's quarter-end or year-end adjusting entries and investigating any that appear unusual as to nature or amount.
- For significant and unusual transactions, particularly those occurring at or near year-end, investigating the possibility of related parties and the sources of financial resources supporting the transactions.
- Performing substantive analytical procedures using disaggregated data. For example, comparing sales and cost of sales by location, line of business or month to expectations developed by the auditor.
- Conducting interviews of personnel involved in areas where a risk of material misstatement due to fraud has been identified, to obtain their insights about the risk and whether, or how, controls address the risk.
- Conducting interviews with personnel outside of the financial reporting function, for example, sales and marketing personnel.
- When other independent auditors are auditing the financial report of one or more subsidiaries, divisions, or branches, discussing with them the extent of work necessary to be performed to address the assessed risk of material misstatement due to fraud resulting from transactions and activities among these components.
- If the work of an expert becomes particularly significant with respect to a financial report item for which the assessed risk of material misstatement due to fraud is high, performing additional procedures relating to some or all of the expert's assumptions, methods or findings

to determine that the findings are not unreasonable or engaging another expert for that purpose.

- Performing audit procedures to analyse selected opening balance sheet accounts of previously audited financial report to assess how certain issues involving accounting estimates and judgements, for example, an allowance for sales returns, were resolved with the benefit of hindsight.
- Performing procedures on account or other reconciliations prepared by the entity, including considering reconciliations performed at interim periods.
- Using automated tools and techniques, such as data mining to test for anomalies in a population. For example, using automated tools and techniques to identify numbers that have been used frequently as there may be an unconscious bias by management or employees when posting fraudulent journal entries and other adjustments to use the same number repetitively.
- Testing the integrity of computer-produced records and transactions.
- Seeking additional audit evidence from sources outside of the entity being audited.

Considerations Specific to Public Sector Entities

- Testing whether grants or loans provided to third parties have met the relevant eligibility criteria and have been properly authorised and accounted for by the public sector entity.
- Testing whether write-offs and other adjustments of tax and levy receivable balances or loan balances have been appropriately authorised.

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

Revenue Recognition

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. Automated tools and techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- Confirming with customers certain relevant contract terms and the absence of side agreements, because the appropriate accounting often is influenced by such terms or agreements and basis for rebates or the period to which they relate are often poorly documented. For example, acceptance criteria, delivery and payment terms, the absence of future or continuing supplier obligations, the right to return the product, guaranteed resale amounts, and cancellation or refund provisions often are relevant in such circumstances.
- Enquiring of the entity's sales and marketing personnel or in-house legal counsel regarding sales or shipments near the end of the period and their knowledge of any unusual terms or conditions associated with these transactions.
- Being physically present at one or more locations at period end to observe goods being shipped or being readied for shipment (or returns awaiting processing) and performing other appropriate sales and inventory cut-off procedures.
- For those situations for which revenue transactions are electronically initiated, processed, and recorded, testing controls to determine whether they provide assurance that recorded revenue transactions occurred and are properly recorded.

- Examining customer correspondence files at the entity for any unusual terms or conditions that raise questions about the appropriateness of revenue recognised.
- Analysing the reasons provided for product returns received shortly after the end of the financial year (e.g., product not ordered, entity shipped more units than ordered).
- Determining whether revenue transactions are recorded in accordance with the applicable financial reporting framework and the entity's accounting policies. For example, goods shipped are not recorded as sales unless there is a transfer of legal title in accordance with the shipping terms especially in circumstances when the entity uses a freight forwarder or a third-party warehouse or fulfillment centre.

Inventory Quantities

- Examining the entity's inventory records to identify locations or items that require specific attention during or after the physical inventory count.
- Observing inventory counts at certain locations on an unannounced basis or conducting inventory counts at all locations on the same date.
- Conducting inventory counts at or near the end of the reporting period to minimise the risk of inappropriate manipulation during the period between the count and the end of the reporting period.
- Performing additional procedures during the observation of the count, for example, more rigorously examining the contents of boxed items, the manner in which the goods are stacked (e.g., hollow squares) or labelled, and the quality (that is, purity, grade, or concentration) of liquid substances such as perfumes or specialty chemicals. Using the work of an expert may be helpful in this regard.
- Comparing the quantities for the current period with prior periods by class or category of inventory, location or other criteria, or comparison of quantities counted with perpetual records.
- Using automated tools and techniques to further test the compilation of the physical inventory counts – for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.
- Verifying the accurate calibration of tools that are used to record, measure, or weigh the quantity of inventory items – for example, scales, measuring devices or scanning devices.
- Using an expert to confirm the nature of inventory quantities for specialised products – for example, the weight of the precious gemstones may be determinable, but an expert may assist with determining the cut, color, and clarity of precious gemstones.

Management Estimates

- Using an expert to develop an independent estimate for comparison with management's estimate.
- Extending enquiries to individuals outside of management and the accounting department to corroborate management's ability and intent to carry out plans that are relevant to developing the estimate.

Specific Responses—Misstatements Due to Misappropriation of Assets

Differing circumstances would necessarily dictate different responses. Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions. Although some of the audit

responses noted in the two categories above may apply in such circumstances, the scope of the work is to be linked to the specific information about the misappropriation risk that has been identified.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- Counting cash or securities at or near year-end.
- Confirming directly with customers the account activity (including credit memo and sales return activity as well as dates payments were made) for the period under audit.
- Analysing recoveries of written-off accounts.
- Analysing inventory shortages by location or product type.
- Comparing key inventory ratios to industry norm.
- Reviewing supporting documentation for reductions to the perpetual inventory records.
- Performing a computerised match of the supplier list with a list of employees to identify matches of addresses or phone numbers.
- Performing a computerised search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.
- Reviewing personnel files for those that contain little or no evidence of activity, for example, lack of performance evaluations.
- Analysing sales discounts and returns for unusual patterns or trends.
- Confirming specific terms of contracts with third parties.
- Obtaining evidence that contracts are being carried out in accordance with their terms.
- Reviewing the propriety of large and unusual expenses.
- Reviewing the authorisation and carrying value of senior management and related party loans.
- Reviewing the level and propriety of expense reports submitted by senior management.

Appendix 3

(Ref: Para. A28)

Examples of Circumstances that May Be Indicative of Fraud or Suspected Fraud

The following are examples of circumstances that may indicate that the financial report may contain a material misstatement due to fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results (e.g., inventory adjustments).

Conflicting or missing evidence, including:

- Missing documents.
- Missing approvals or authorisation signatures.
- Signature or handwriting discrepancies and invalid electronic signatures.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important financial report ratios or relationships – for example, receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from enquiries or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Subsidiary ledgers, which do not reconcile with control accounts.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Unexplained fluctuations in stock account balances, inventory variances and turnover rates.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.

- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.
- Information about overly optimistic projections obtained from listening to the entity's earnings calls with analysts or by reading analysts' research reports that is contrary to information presented in the entity's internal forecasts used for budgeting purposes.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, suppliers, or others from whom audit evidence might be sought.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- An unwillingness to facilitate auditor access to key electronic files for testing through the use of automated tools and techniques.
- An unwillingness to allow a discussion between the auditor and management's third-party expert (e.g., an expert in taxation law).
- An unwillingness by management to permit the auditor to meet privately with those charged with governance.
- An unwillingness to correct a material misstatement in the financial report, or in other information included in the entity's annual report.
- An unwillingness to add or revise disclosures in the financial report to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.
- An unwillingness to allow the auditor to send a confirmation request.
- An unwillingness to provide a requested written representation.

Other

- Extensive use of suspense accounts.
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's code of conduct.
- Discrepancy between earnings and lifestyle.
- Unusual, irrational, or inconsistent behaviour.

- Allegations of fraud through anonymous emails, letters, telephone calls, tips or complaints that may come to the attention of the auditor.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- Controls or audit logs being switched off

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Appendix 4

(Ref: Para. A99, A103 and A141)

Additional Considerations that May Inform the Auditor When Selecting Journal Entries and Other Adjustments for Testing

The following considerations are of relevance when selecting journal entries and other adjustments for testing:

- Understanding of the entity's information system and communication relevant to the preparation of the financial report⁹³ (see also paragraph 35 of this ASA) – obtaining this required understanding provides the auditor with knowledge about:
 - The entity's policies and procedures regarding (including the individuals within the entity responsible for) how transactions are initiated, recorded, processed, corrected as necessary, incorporated in the general ledger, and reported in the financial report.
 - The types of journal entries (whether standard or non-standard) incorporated in the general ledger and, in turn, reported in the financial report, including other adjustments made directly to the financial report.
 - The process of how journal entries and other adjustments are recorded or made (whether automated or manual) as well as the supporting documentation required, based on the entity's policies and procedures.
 - The entity's financial report closing process.
- Understanding of the entity's controls designed to prevent or detect fraud over journal entries⁹⁴ (see also paragraph 36 of this ASA) – for many entities, routine processing of transactions involves a combination of manual and automated controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated controls across one or multiple IT systems. Where IT is used in the financial reporting process, journal entries and other adjustments may exist only in electronic form.
 - The types of controls designed to prevent or detect fraud over journal entries may include authorisations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls.
 - The requirement in paragraph 36 covers controls over journal entries that address a risk(s) of material misstatement due to fraud at the assertion level, and that could be susceptible to unauthorised or inappropriate intervention or manipulation. These controls include:
 - ◆ Controls over non-standard journal entries — where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments.
 - ◆ Controls over standard journal entries — where the journal entries are automated or manual and are susceptible to unauthorised or inappropriate intervention or manipulation.
- The effectiveness of controls that have been implemented over journal entries and other adjustments— effective controls over the preparation and posting of journal entries and other

⁹³ See ASA 315, paragraph 25.

⁹⁴ See ASA 315, paragraph 26.

adjustments may reduce the extent of substantive testing necessary, provided that the auditor has tested the operating effectiveness of the controls.

- The identification and assessment of the risks of material misstatement due to fraud — the evaluation of information obtained from the risk assessment procedures and related activities, including the consideration of information obtained from other sources, could indicate the presence of fraud risk factors. Such fraud risk factors, particularly events or conditions that indicate incentives and pressures for management to override controls, opportunities for management override, and attitudes or rationalisations that enable management to justify override of controls, may assist the auditor to identify specific classes of journal entries and other adjustments for testing. These may include journal entries and other adjustments susceptible to unauthorised or inappropriate intervention or manipulation resulting from:
 - Pressures or incentives to meet or exceed performance measures used, internally and externally (e.g., auto-reversing journal entries made at year-end).
 - Pressures or incentives to minimise or avoid taxes (e.g., inappropriate journal entries to record premature or delayed revenue or expense recognition).
 - Pressures to comply with debt repayment or other debt covenant requirements (e.g., inappropriately offsetting assets and liabilities in the balance sheet by directly making adjustments to the financial report to achieve a debt covenant on the entity's debt-to-equity ratio, even when the conditions for a right of setoff are not met).
 - Opportunities, arising from the inappropriate segregation of duties, for any individual in the entity to conceal or perpetrate fraud in the normal course of that individual's duties (e.g., journal entries and other adjustments relating to transactions affecting assets, where the individual is responsible for (a) the custody of assets, or (b) the authorisation or approval of the related transactions affecting those assets, and (c) the recording or reporting of related transactions).
 - Opportunities arising from deficiencies in internal control (e.g., journal entries and other adjustments related to purchase payments to unauthorised suppliers or made by terminated or transferred employees).
 - Opportunities arising from privileged access granted to individuals involved in the financial report closing process (e.g., journal entries and other adjustments made by individuals with administrative or powerful users' access).
 - Opportunities arising from calculations based on end-user computing tools that support accounting estimates susceptible to misstatement due to management bias or fraud (e.g., journal entries and other adjustments based on calculations of impairment of goodwill and other intangible assets using spreadsheet software).
- The characteristics of fraudulent journal entries and other adjustments — inappropriate journal entries or other adjustments often have unique identifying characteristics. Such characteristics may include entries:
 - Made to unrelated, unusual, or seldom-used accounts.
 - Made by individuals who typically do not make journal entries.
 - Recorded at the end of the period or as post-closing entries that have little or no explanation or description.
 - Made either before or during the preparation of the financial report that do not have account numbers.
 - Containing round numbers or consistent ending numbers.

The auditor may use recent information, such as data on actual perpetrated frauds or reports regarding trends in occupational fraud, to inform the auditor as to characteristics of fraudulent journal entries.

- The nature and complexity of the accounts — inappropriate journal entries or adjustments may be applied to accounts that:
 - Contain transactions that are complex or unusual in nature.
 - Contain significant estimates and period-end adjustments.
 - Have been prone to misstatements in the past.
 - Have not been reconciled on a timely basis or contain unreconciled differences.
 - Contain intercompany transactions or transaction with related parties.
 - Are otherwise associated with an identified risk of material misstatement due to fraud.
- Journal entries and other adjustments processed outside the normal course of business – non-standard journal entries may not be subject to the same nature and extent of controls as those journal entries used on a recurring basis to record transactions such as monthly sales, purchases, and cash disbursements

Appendix 5

(Ref: Para. A17)

Other ASAs Addressing Specific Topics that Reference Fraud or Suspected Fraud

This Appendix identifies other ASAs with specific requirements that refer to fraud or suspected fraud. The list does not include other ASAs with requirements that refer to fraud or error (e.g., ASA 210,⁹⁵ ASA 315, ASA 700). The list is not a substitute for considering the requirements and related application and other explanatory material in the ASAs.

- ASA 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraph 19
- ASA 505, *External Confirmations* – paragraphs 8(b) and 11
- ASA 540, *Auditing Accounting Estimates and Related Disclosures* – paragraph 32
- ASA 550, *Related Parties* – paragraphs 19, 22(e) and 23(a)(i)
- ASA 600, *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* – paragraphs 38(d), 44A, 45(h), 55, 57(d) and 59(g)(i)

⁹⁵ See ASA 210, *Agreeing the Terms of Audit Engagements*.

ASA 240
(July 2025)

Auditing Standard ASA 240

The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

Issued by the Auditing and Assurance Standards Board

Draft



Australian Government

Auditing and Assurance Standards Board

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PREFACE

Reasons for Issuing ASA 240

The AUASB issues Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard represents the Australian equivalent of ISA 240 (Revised 2025), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and will replace the current ASA 240 issued by the AUASB in October 2009 (as amended to 27 April 2022).

This Auditing Standard contains differences from the ISA 240 (Revised 2025), which have been made in the Application and Other Explanatory Material and Appendices to reflect Australian regulatory requirements.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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D Niven
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 240 (Revised 2025), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

The following application and other explanatory material is additional to ISA 240:

- For an audit engagement under the *Corporations Act 2001* (the Act), resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain circumstances, obtaining consent to resign from the Australian Securities and Investments Commission (ASIC). (Ref: Para. Aus A175.1).
- Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a person regarding contraventions or possible contraventions of the law. In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or those charged with governance in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement. (Ref: Para. Aus A195.1).
- An auditor is required by the *Corporations Act 2001* to notify the Australian Securities and Investments Commission (ASIC) if the auditor is aware of certain circumstances. (Ref: Para. Aus A202.1).

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 240 (Revised 2025).

AUDITING STANDARD ASA 240

The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods beginning on or after 15 December 2026.

Introduction

Scope of this Auditing Standard

1. This [International Australian](#) Standard on Auditing ([ISAASA](#)) deals with the auditor's responsibilities relating to fraud in an audit of [financial statements](#) ~~a financial report~~ and the implications for the auditor's report. The requirements and guidance in this [ISAASA](#) refer to, or expand on, the application of other relevant [ISAASAs](#), in particular [ISAASA](#) 200,¹ [ISAASA](#) 220 (Revised),² [ISAASA](#) 315 (Revised 2019),³ [ISAASA](#) 330,⁴ and [ISAASA](#) 701.⁵ Accordingly, this [ISAASA](#) is intended to be applied in conjunction with other relevant [ISAASA](#)s.

Responsibilities of the Auditor, Management and Those Charged with Governance

Responsibilities of the Auditor

2. The auditor's responsibilities relating to fraud when conducting an audit in accordance with this [ISAASA](#), and other relevant [ISAASA](#)s, are to: (Ref: Para. A1)
- (a) Plan and perform the audit to obtain reasonable assurance about whether the [financial statements](#) ~~financial report~~ as a whole ~~are~~ *is* free from material misstatement due to fraud. These responsibilities include identifying and assessing risks of material misstatement in the [financial statements](#) ~~financial report~~ due to fraud and designing and implementing responses to address those assessed risks.
 - (b) Communicate and report about matters related to fraud.

¹ See [ISA-ASA](#) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Australian Auditing Standards on Auditing*.

² See [ISA-ASA](#) 220 (Revised), *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

³ See [ISA-ASA](#) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*.

⁴ See [ISA-ASA](#) 330, *The Auditor's Responses to Assessed Risks*.

⁵ See [ISA-ASA](#) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

Responsibilities of Management and Those Charged with Governance

3. The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating and maintaining a culture of honesty and ethical ~~behavior~~behaviour that can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings in order to influence the perceptions of financial ~~statement-report~~statement report users regarding the entity's performance.

Key Concepts in this ~~ISA~~ASA*Characteristics of Fraud*

4. Misstatements in the ~~financial statements~~financial report can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the ~~financial statements~~financial report is intentional or unintentional.
5. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. (Ref: Para. A2–A6)

Fraud or Suspected Fraud

6. Although fraud is a broad legal concept, for the purposes of the ~~ISA~~ASAs, the auditor is concerned with a material misstatement of the ~~financial statements~~financial report due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ~~ISA~~ASA, the auditor does not make legal determinations of whether fraud has actually occurred.
7. The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with this and other ~~ISA~~ASAs. Suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit. (Ref: Para. A7–A10 and A27)
8. The auditor's determination of whether a fraud or suspected fraud is material to the ~~financial statements~~financial report involves the exercise of professional ~~judgment~~judgement. For identified misstatement(s) due to fraud, this includes consideration of the nature of the circumstances giving rise to the fraud. ~~Judgment~~Judgements about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)

Inherent Limitations

9. While the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the ~~financial statements~~financial report as a whole ~~are~~is free from material misstatement due to fraud. Reasonable assurance is a high, but not absolute, level of assurance.⁶
10. Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the ~~financial statements~~financial report may not be detected, even though the audit is properly planned and performed in accordance with the ~~ISA~~ASAs.⁷ However, the inherent limitations of an audit are not a

⁶ See ~~ISA~~ASA 200, paragraph 5.

⁷ See ~~ISA~~ASA 200, paragraphs A53–A54.

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justification for the auditor to be satisfied with less than persuasive audit evidence.⁸ (Ref: Para. A12)

11. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.

Professional ~~Skepticism~~Scepticism and Professional ~~Judgment~~Judgement

12. In accordance with [ISA/ASA](#) 200,⁹ the auditor is required to plan and perform the audit with professional ~~skepticism~~scepticism and to exercise professional ~~judgment~~judgement. The auditor is required by this [ISA/ASA](#) to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional ~~skepticism~~scepticism throughout the audit, considering the potential for management override of controls, and ~~recognizing~~recognising that audit procedures that are effective for detecting error may not be effective in detecting fraud.
13. Professional ~~judgment~~judgement is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional ~~skepticism~~scepticism supports the quality of ~~judgment~~judgements made by the engagement team and, through these ~~judgment~~judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. (Ref: Para. A13–A14)

Non-Compliance with Laws and Regulations

14. For the purposes of this and other relevant [ISA/ASAs](#), fraud ordinarily constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor also has responsibilities in accordance with [ISA/ASA](#) 250 (~~Revised~~).¹⁰ (Ref: Para. A15–A16)

Relationship with Other [ISA/ASAs](#)

15. Some [ISA/ASAs](#) that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. In these instances, the other [ISA/ASAs](#) expand on how this [ISA/ASA](#) is applied. (Ref: Para. A17)

Effective Date

16. ~~This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2026~~[\[Deleted by the AUASB. Refer Aus 0.3\].](#)

Objectives

17. The objectives of the auditor are:
 - (a) To identify and assess the risks of material misstatement of the ~~financial statements~~financial report due to fraud;
 - (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses;

⁸ [ISA](#)—See [ASA](#) 200, paragraph A54.

⁹ See [ISA/ASA](#) 200, paragraphs 15–16.

¹⁰ See [ISA/ASA](#) 250 (~~Revised~~), *Consideration of Laws and Regulations in an Audit of [Financial Statements](#)*a Financial Report.

- (c) To respond appropriately to fraud or suspected fraud identified during the audit; and
- (d) To report in accordance with this [ISA/ASA](#).

Definitions

18. For purposes of the [ISA/ASA](#)s, the following terms have the meanings attributed below:

- (a) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A18–A22)
- (b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, or an attitude or ~~rationalization~~[rationalisation](#) that justifies the fraudulent action. (Ref: Para. A23–A25)

Requirements

Professional ~~Skepticism~~[Scepticism](#)

- 19. In applying [ISA/ASA](#) 200,¹¹ the auditor shall maintain professional ~~skepticism~~[scepticism](#) throughout the audit, ~~recognizing~~[recognising](#) the possibility that a material misstatement due to fraud could exist. (Ref: Para. A26)
- 20. The auditor shall remain alert throughout the audit for information that indicates that one or more fraud risk factors are present and circumstances that may be indicative of fraud or suspected fraud. (Ref: Para. A27–A31)
- 21. Where responses to ~~inquiries~~[enquiries](#) of management, those charged with governance, individuals within the internal audit function, or others within the entity are inconsistent, the auditor shall investigate the inconsistencies. (Ref: Para. A32)
- 22. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A33–A36)

Engagement Resources

- 23. In applying [ISA/ASA](#) 220-~~(Revised)~~,¹² the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time and appropriate ~~specializes~~[specialise](#)d skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained. (Ref: Para. A37–A41)

Engagement Performance

- 24. In applying [ISA/ASA](#) 220-~~(Revised)~~,¹³ the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the audit engagement, considering matters identified during the course of the audit engagement, including: (Ref: Para. A42)
 - (a) Fraud risk factors;
 - (b) Fraud or suspected fraud; and
 - (c) Control deficiencies related to the prevention or detection of fraud.

¹¹ See [ISA-ASA](#) 200, paragraph 15.

¹² See [ISA-ASA](#) 220-~~(Revised)~~, paragraphs 25–28.

¹³ See [ISA-ASA](#) 220-~~(Revised)~~, paragraph 30(b).

Ongoing Nature of Communications with Management and Those Charged with Governance

25. The auditor shall communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement. (Ref: Para. A43–A47)

Risk Assessment Procedures and Related Activities

26. In applying [ISA/ASA 315 \(Revised 2019\)](#),¹⁴ the auditor shall perform the procedures in paragraphs 27–38. In doing so, the auditor shall consider whether one or more fraud risk factors are present. (Ref: Para. A48)

Information from Other Sources

27. In applying [ISA/ASA 315 \(Revised 2019\)](#),¹⁵ the auditor shall consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present. (Ref: Para. A49–A50)

Retrospective Review of the Outcome of Previous Accounting Estimates

28. In applying [ISA/ASA 540 \(Revised\)](#),¹⁶ the auditor shall perform a retrospective review of management ~~judgment~~judgements and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. (Ref: Para. A51)

Engagement Team Discussion

29. In applying [ISA/ASA 315 \(Revised 2019\)](#),¹⁷ when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's ~~financial statements~~financial report may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include: (Ref: Para. A42, A52–A53 and A58)

- (a) An exchange of ideas about:
 - (i) The entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance; (Ref: Para. A54)
 - (ii) Fraud risk factors, including: (Ref: Para. A55–A56)
 - a. Incentives or pressures on management, those charged with governance, or employees to commit fraud;
 - b. How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and
 - c. How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties.
 - (iii) Which types of revenue, revenue transactions or relevant assertions may give rise to the risks of material misstatement due to fraud in revenue recognition; and

¹⁴ See [ISA-ASA 315 \(Revised 2019\)](#), paragraphs 13–26.

¹⁵ See [ISA-ASA 315 \(Revised 2019\)](#), paragraphs 15–16.

¹⁶ See [ISA-ASA 540 \(Revised\)](#), *Auditing Accounting Estimates and Related Disclosures*, paragraph 14.

¹⁷ See [ISA-ASA 315 \(Revised 2019\)](#), paragraphs 17 and A42–A43.

- (iv) How management may be able to override controls. (Ref: Para. A57)
- (b) A consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years.

Analytical Procedures Performed and Unusual or Unexpected Relationships Identified

- 30. The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud. (Ref: Para. A59)

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

Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework

- 31. In applying [ISA/ASA 315 \(Revised 2019\)](#),¹⁸ based on the auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's accounting policies, the auditor shall obtain an understanding of matters that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. (Ref: Para. A60–A69)

Understanding the Components of the Entity's System of Internal Control

Control Environment

- 32. In applying [ISA/ASA 315 \(Revised 2019\)](#),¹⁹ the auditor shall:
 - (a) Obtain an understanding of:
 - (i) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical ~~behavior~~[behaviour](#) with respect to the prevention and detection of fraud. (Ref: Para. A70–A71)
 - (ii) The entity's whistleblower program (or other program to report fraud), if the entity has such a program, including how management and, if applicable, those charged with governance address allegations of fraud made through the program. (Ref: Para. A72–A74)
 - (iii) How those charged with governance exercise oversight of management's processes for identifying and responding to the fraud risks and the controls that management has established to address these risks. (Ref: Para. A75–A78)
 - (b) Make ~~inquiries~~[enquiries](#) of management regarding management's communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
 - (c) Make ~~inquiries~~[enquiries](#) of those charged with governance about: (Ref: Para. A79–A81)
 - (i) Whether they have knowledge of any fraud or suspected fraud including allegations of fraud, including those received from tips or complaints, affecting the entity, and if so, how they have responded to such matters;
 - (ii) Their views about whether and how the ~~financial statements~~[financial report](#) may be materially misstated due to fraud, including their views on possible

¹⁸ See [ISA/ASA 315 \(Revised 2019\)](#), paragraph 19.

¹⁹ See [ISA/ASA 315 \(Revised 2019\)](#), paragraph 21.

areas that are susceptible to misstatement due to management bias or management fraud; and

- (iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.

The Entity's Risk Assessment Process

33. In applying [ISA/ASA 315 \(Revised 2019\)](#),²⁰ the auditor shall:

- (a) Obtain an understanding of how the entity's risk assessment process: (Ref: Para. A82–A90, A106)
 - (i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures for which risks of fraud exist;
 - (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and
 - (iii) Addresses the assessed fraud risks.
- (b) Make [inquiries/enquiries](#) of management and of other appropriate individuals within the entity about: (Ref: Para. A91–A94)
 - (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and
 - (ii) Their views about whether and how the [financial statements/financial report](#) may be materially misstated due to fraud.

The Entity's Process to Monitor the System of Internal Control

34. In applying [ISA/ASA 315 \(Revised 2019\)](#),²¹ the auditor shall:

- (a) Obtain an understanding of:
 - (i) Aspects of the entity's process to monitor the system of internal control that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies identified; and (Ref: Para. A95)
 - (ii) If the entity has an internal audit function, the internal audit function's objectives in respect of monitoring controls over risks of fraud.
- (b) If the entity has an internal audit function, make [inquiries/enquiries](#) of appropriate individuals within the internal audit function about whether: (Ref: Para. A96–A97)
 - (i) They have performed any procedures in respect of monitoring controls over risks of fraud during the period;
 - (ii) They have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity and to obtain their views about the risks of fraud; and
 - (iii) They are aware of deficiencies in the system of internal control related to the prevention and detection of fraud.

²⁰ [ISA/ASA 315 \(Revised 2019\)](#), paragraph 22.

²¹ [ISA/ASA 315 \(Revised 2019\)](#), paragraph 24.

The Information System and Communication

35. In applying [ISA/ASA 315 \(Revised 2019\)](#),²² the auditor's understanding of the entity's information system and communication relevant to the preparation of the [financial statements/financial report](#) shall include understanding how journal entries and other adjustments are initiated, processed, recorded, and corrected as necessary. (Ref: Para. A98–A100)

Control Activities

36. In applying [ISA/ASA 315 \(Revised 2019\)](#),²³ the auditor's understanding of the entity's control activities shall include identifying controls that address risks of material misstatement due to fraud at the assertion level, including controls over journal entries and other adjustments, designed to prevent or detect fraud. (Ref: Para. A101–A106)

Control Deficiencies Within the Entity's System of Internal Control

37. In applying [ISA/ASA 315 \(Revised 2019\)](#),²⁴ based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud. (Ref: Para. A107–A108)

Evaluation of Fraud Risk Factors

38. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present. (Ref: Para. A23–A25 and A109–A111)

Identifying and Assessing the Risks of Material Misstatement due to Fraud

39. In applying [ISA/ASA 315 \(Revised 2019\)](#),²⁵ the auditor shall:
- (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial [statement-report](#) level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A112–A113, A114)
 - (b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such significant risks, evaluate whether they have been designed effectively to address the risks of material misstatement, or designed effectively to support the operation of other controls, and determine whether they have been implemented. (Ref: Para. A113A)

Risks of Material Misstatement Due to Fraud Related to Management Override of Controls

40. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall: (Ref: Para. A115–A116)
- (a) Treat the risks of management override of controls as risks of material misstatement due to fraud at the financial [statement-report](#) level; and
 - (b) Determine whether such risks affect the assessment of risks at the assertion level.

²² See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 25.

²³ See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 26.

²⁴ See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 27.

²⁵ See [ISA-ASA 315 \(Revised 2019\)](#), paragraphs 28–34.

Risks of Material Misstatement Due to Fraud in Revenue Recognition

41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors. (Ref: Para. A117–A123)

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Designing and Performing Audit Procedures in a Manner That Is Not Biased

42. The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may contradict such assertions.

Unpredictability in the Selection of Audit Procedures

43. In determining responses to address assessed risks of material misstatement due to fraud, the auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A124–A125)

Overall Responses

44. In accordance with [ISA/ASA 330](#),²⁶ the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial [statement-report](#) level. (Ref: Para. A126)
45. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial [statement-report](#) level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.

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

46. In accordance with [ISA/ASA 330](#),²⁷ the auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Ref: Para. A127–A133)

Audit Procedures Responsive to Risks of Material Misstatement Due to Fraud Related to Management Override of Controls

47. Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform the audit procedures in accordance with paragraphs 48–52, and determine whether other audit procedures are needed in addition to those in paragraphs 48–52, in order to respond to the identified risks of management override of controls.

Journal Entries and Other Adjustments

48. The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the [financial statements/financial report](#). (Ref: Para. A134–A137)
49. In designing and performing audit procedures in accordance with paragraph 48, the auditor shall: (Ref: Para. A98)

²⁶ [ISA-See ASA 330](#), paragraph 5.

²⁷ [See ISA-ASA 330](#), paragraph 6.

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- (a) Make ~~inquiries~~[enquiries](#) of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- (b) Obtain audit evidence about the completeness of the population of journal entries and other adjustments made throughout the period; (Ref: Para. A138 and A145)
- (c) Select journal entries and other adjustments made at the end of a reporting period; and (Ref: Para. A139–A141, A142 and A144–A145)
- (d) Determine the need to test journal entries and other adjustments made throughout the period. (Ref: Para. A140–A141 and A143–A144)

Accounting Estimates

- 50. In applying ~~ISA~~[ASA](#) 540 ~~(Revised)~~,²⁸ if indicators of possible management bias are identified, the auditor shall evaluate whether they may represent a risk of material misstatement due to fraud. (Ref: Para. A146–A148)
- 51. In performing the evaluation in accordance with paragraph 50, the auditor shall:
 - (a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and
 - (b) If indicators of possible management bias are identified, ~~reevaluate~~[re-evaluate](#) the accounting estimates taken as a whole. (Ref: Para. A148–A150)

Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual

- 52. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Ref: Para. A151)

Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion

- 53. In applying ~~ISA~~[ASA](#) 520,²⁹ the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the ~~financial statements~~[financial report](#) ~~are~~[is](#) consistent with the auditor's understanding of the entity, indicate a previously un[recognize](#)~~recognised~~ risk of material misstatement due to fraud. (Ref: Para. A152–A153)

Overall Evaluation Based on Audit Procedures Performed

- 54. In applying ~~ISA~~[ASA](#) 330,³⁰ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:
 - (a) The assessments of the risks of material misstatement due to fraud remain appropriate; and
 - (b) Sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud.

²⁸ See ~~ISA~~[ASA](#) 540 ~~(Revised)~~, paragraph 32.

²⁹ See ~~ISA~~[ASA](#) 520, *Analytical Procedures*, paragraph 6.

³⁰ See ~~ISA~~[ASA](#) 330, paragraphs 25–26, A62–A64.

Fraud or Suspected Fraud (Ref: Para. A7–A11, A27 and A154–A170)

55. If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter(s) in order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A156–A160)
- (a) Make ~~inquiries~~enquiries about the matter(s) with the appropriate level of management and, when appropriate in the circumstances, make ~~inquiries~~enquiries about the matter(s) with those charged with governance;
 - (b) If the entity has a process to investigate the matter(s), evaluate whether it is appropriate in the circumstances; and
 - (c) If the entity has implemented remedial actions to respond to the matter(s), evaluate whether they are appropriate in the circumstances.
56. Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential based on the procedures performed in paragraph 54, the engagement partner shall: (Ref: Para. A161–A163)
- (a) Determine whether:
 - (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ~~ISA~~ASA 315 ~~(Revised 2019)~~;
 - (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ~~ISA~~ASA 330; and
 - (iii) There are additional responsibilities for the auditor under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ~~ISA~~ASA 250 ~~(Revised)~~.
 - (b) If applicable, consider the impact on prior period audits.
57. If the auditor identifies a misstatement due to fraud, the auditor shall: (Ref: Para. A164–A170)
- (a) Determine whether the identified misstatement is material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement;
 - (b) Determine whether control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud;
 - (c) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management is involved; and
 - (d) Reconsider the reliability of management's representations and audit evidence previously obtained, including when the circumstances or conditions giving rise to the misstatement indicate possible collusion involving employees, management or third parties.
58. If the auditor determines that the ~~financial statements~~financial report ~~are~~is materially misstated due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the ~~financial statements~~financial report ~~are~~is materially misstated due to fraud, the auditor shall:

- (a) Determine the implications for the audit and the auditor's opinion on the ~~financial statements~~[financial report](#) in accordance with ~~ISA~~[ASA](#) 705-~~(Revised)~~³¹ and
- (b) If appropriate, obtain advice from legal counsel.

Auditor Unable to Continue the Audit Engagement

59. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit engagement, the auditor shall:

- (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation;
- (c) If the auditor withdraws:
 - (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (Ref: Para. A171–A174)
- (d) Where law or regulation prohibits the auditor from withdrawing from the engagement, consider whether the exceptional circumstances will result in a disclaimer of opinion on the ~~financial statements~~[financial report](#).

Auditor's Report***Determining Key Audit Matters Related to Fraud***

60. In applying ~~ISA~~[ASA](#) 701,³² the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A175–A181)

- (a) Identified and assessed risks of material misstatement due to fraud;
- (b) The identification of fraud or suspected fraud; and
- (c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud.

61. In applying ~~ISA~~[ASA](#) 701,³³ the auditor shall determine which of the matters determined in accordance with paragraph 59 were of most significance in the audit of the ~~financial statements~~[financial report](#) of the current period and therefore are key audit matters. (Ref: Para. A182–A184)

³¹ See ~~ISA~~[ASA](#) 705-~~(Revised)~~, *Modifications to the Opinion in the Independent Auditor's Report*.

³² See ~~ISA~~[ASA](#) 701, paragraph 9.

³³ See ~~ISA~~[ASA](#) 701, paragraph 10.

Communicating Key Audit Matters Related to Fraud

62. In applying [ISA-ASA 701](#),³⁴ in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A185–A190)

Written Representations

63. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (Ref: Para. A191–A192)
- (a) They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud and have appropriately fulfilled those responsibilities;
 - (b) They have disclosed to the auditor the results of management's assessment of the risk that the [financial statements](#)[financial report](#) may be materially misstated as a result of fraud;
 - (c) They have disclosed to the auditor their knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have an effect on the [financial statements](#)[financial report](#); and
 - (d) They have disclosed to the auditor their knowledge of suspected fraud, including allegations of fraud, affecting the entity's [financial statements](#)[financial report](#) communicated by employees, former employees, analysts, regulators, or others.

Communications with Management and Those Charged with Governance

Communication with Management

64. If the auditor identifies fraud or suspected fraud, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A193–A194)

Communication with Those Charged with Governance

65. Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud, involving:
- (a) Management;
 - (b) Employees who have significant roles in internal control; or
 - (c) Others, except for matters that are clearly inconsequential,
- the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A193 and A195–A197)

³⁴ See [ISA-ASA 701](#), paragraph 11.

66. The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's ~~judgment~~judgement, relevant to the responsibilities of those charged with governance. (Ref: Para. A193 and A198)

Reporting to an Appropriate Authority Outside the Entity

67. If the auditor identifies fraud or suspected fraud, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A199–A203)
- (a) Require the auditor to report to an appropriate authority outside the entity.
 - (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Documentation

68. In applying ~~ISA~~ASA 230,³⁵ the auditor shall include the following in the audit documentation: (Ref: Para. A204)
- (a) The matters discussed among the engagement team regarding the susceptibility of the entity's ~~financial statements~~financial report to material misstatement due to fraud in accordance with paragraph 29.
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 31–36, the sources of information from which the auditor's understanding was obtained and the risk assessment procedures performed.
 - (c) The identified and assessed risks of material misstatement due to fraud at the ~~financial statement report~~financial report level and at the assertion level, and the rationale for the significant ~~judgment~~judgements made.
 - (d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion.
 - (e) The results of audit procedures performed to address the risks of management override of controls, the significant professional ~~judgment~~judgements made, and the conclusions reached.
 - (f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional ~~judgment~~judgements made, and the conclusions reached.
 - (g) The matters related to fraud or suspected fraud communicated with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters.

* * *

³⁵ ISA-See ASA 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix.

Application and Other Explanatory Material

Responsibilities of the Auditor, Management and Those Charged with Governance

Responsibilities of the Auditor (Ref: Para. 2)

Considerations Specific to Public Sector Entities

- A1. The public sector auditor's responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor's mandate. Consequently, the public sector auditor's responsibilities may not be limited to consideration of risks of material misstatement of the ~~financial statements~~[financial report](#) but may also include a broader responsibility to consider risks of fraud.

Key Concepts in this ~~ISA~~[ASA](#)

Characteristics of Fraud (Ref: Para. 5)

- A2. Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some ~~rationalization~~[rationalisation](#) of the act.

Examples:

- Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure, from sources outside or inside the entity, to achieve an expected (and perhaps unrealistic) earnings target or financial outcome — particularly when the consequences to management for failing to meet financial goals can be significant. Similarly, individuals may have an incentive to misappropriate assets — for example, because the individuals are living beyond their means.
- A perceived opportunity to commit fraud may exist when an individual believes controls can be overridden, for example, because the individual is in a position of trust or has knowledge of specific control deficiencies.
- Individuals may ~~rationalize~~[rationalise](#) committing a fraudulent act as they may possess an attitude, character or set of ethical values that allow them to knowingly and intentionally commit a dishonest act. However, even otherwise honest individuals can commit fraud in an environment that imposes sufficient pressure on them.

- A3. Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in ~~financial statements~~[financial report](#), to deceive financial ~~statement~~[report](#) users. It can be caused by the efforts of management to manage earnings to deceive financial ~~statement-report~~ users by influencing their perceptions as to the entity's performance and profitability. Such earnings management may start out with small actions, or adjustment of assumptions, and changes in ~~judgment~~[judgements](#) by management. Pressures and incentives may lead these actions to increase to the extent that they result in material fraudulent financial reporting.

Examples:

- Management intentionally takes positions that lead to fraudulent financial reporting by materially misstating the ~~financial statements~~[financial report](#) due to pressures to meet market expectations or a desire to ~~maximize~~[maximise](#) compensation based on performance.
- Management reduces earnings by a material amount to ~~minimize~~[minimise](#) tax.
- Management inflates earnings to secure bank financing.

- In the public sector, misreporting of revenues or underreporting of expenditures, especially when such expenditures are subject to statutory limits.

A4. Fraudulent financial reporting may be accomplished by the following:

- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the ~~financial statements~~financial report ~~are~~ is prepared.
- Misrepresentation in, or intentional omission from, the ~~financial statements~~financial report of events, transactions or other significant information.
- Intentional misapplication of the applicable financial reporting framework relating to amounts, classification, manner of presentation, or disclosure.

A5. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as intentionally:

- Recording fictitious journal entries to manipulate operating results or achieve other objectives.
- Inappropriately adjusting assumptions and changing ~~judgment~~judgements used to estimate account balances.
- Omitting, advancing or delaying recognition in the ~~financial statements~~financial report of events and transactions that have occurred during the reporting period.
- Misstating disclosures, including omitting and obscuring disclosures, required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation.
- Concealing facts that could affect the amounts recorded in the ~~financial statements~~financial report.
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- Altering records and terms related to transactions.
- Altering reports that would highlight inappropriate activity or transactions.
- Taking advantage of inadequate information processing controls in information technology (IT) applications, including controls over and review of IT application event logs (e.g., modifying the application logic, or where users can access a common database using generic access identification, or modify access identification, to conceal activity).

A6. Misappropriation of assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management, who are usually better positioned to disguise or conceal misappropriations in ways that are difficult to detect. In addition, misappropriation of assets can involve third parties who are able to exploit the entity's assets in order to obtain an unjust or illegal advantage. Misappropriation of assets can be accomplished in a variety of ways and is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper ~~authorization~~authorisation.

Examples:

- Embezzling funds (e.g., misappropriating collections of accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).
- Theft of assets (e.g., stealing inventory for personal use, stealing scrap for resale, theft of digital assets by exploiting a private key and in doing so allowing the perpetrator to control the entity's funds, theft of intellectual property by colluding with a competitor to disclose technological data in return for payment).
- Causing an entity to pay for goods and services not received (e.g., payments to fictitious suppliers, kickbacks paid by suppliers to the entity's purchasing agents in return for approving payment for inflated prices, or payments to fictitious employees).
- Using an entity's assets for personal use (e.g., using the entity's assets as collateral for a personal loan or a loan to a related party).

Fraud or Suspected Fraud (Ref: Para. 7 and 54–57)

- A7. Audit evidence obtained when performing risk assessment procedures and further audit procedures in accordance with this [ISAASA](#) may indicate the existence of fraud or suspected fraud.

Examples:

- When obtaining an understanding of the entity's whistleblower program, the auditor identified a tip submitted to the entity's fraud reporting hotline which alleged that management had inflated earnings by entering into transactions with related parties which lacked a business purpose.
- When performing further audit procedures to respond to assessed risks of material misstatement due to fraud at the assertion level for inventory, the auditor obtained audit evidence that indicated the possible misappropriation of products from the entity's warehouse by employees.

- A8. Audit procedures performed to comply with other [ISAASAs](#) may also bring instances of fraud or suspected fraud to the auditor's attention including, for example, those performed in accordance with [ISAASA 600 \(Revised\)](#)³⁶ when responding to assessed risks of material misstatement due to fraud arising from the consolidation process.
- A9. The auditor may use automated tools and techniques to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud or when responding to assessed risks of material misstatement due to fraud. This may allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights or identify unusual trends, which enhances the ability of the auditor to exercise professional [skepticism](#) and more effectively challenge management's assertions. The auditor may also use automated tools and techniques to perform audit procedures related to journal entry testing in a more efficient and effective manner. However, the use of automated tools and techniques does not replace the need to maintain professional [skepticism](#) and to exercise professional [judgment](#) throughout the audit.
- A10. For the purpose of this [ISAASA](#), allegations of fraud by another party involving the entity are treated by the auditor as suspected fraud once the allegations have come to the auditor's attention (e.g., identified as a result of [inquiries](#) made by the auditor of management, or when obtaining an understanding of the entity's whistleblower program (or other program to report fraud)). The party making the allegations may be internal or external to the entity.

³⁶ [ISA-See ASA 600 \(Revised\)](#), *Special Considerations — Audits of a Group Financial Statements Report (Including the Work of Component Auditors)*, paragraph 38(d).

Accordingly, the auditor performs audit procedures in accordance with paragraphs 54–57 to address the suspected fraud.

- A11. Even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on:
- (a) Who instigated or perpetrated the fraud – an otherwise insignificant fraud perpetrated by senior management, or a public official is ordinarily considered qualitatively material irrespective of the amount involved. This may in turn give rise to concerns about the integrity of management responsible for the entity's system of internal control.
 - (b) Why the fraud was perpetrated – misstatements that are not material quantitatively, either individually or in the aggregate, may have been made intentionally by management to “manage” key performance indicators in order to, for example, meet market expectations, ~~maximize~~maximise compensation based on performance, or comply with the terms of debt covenants. In the public sector, misstatements may have been made intentionally by management to achieve a surplus when a deficit is prohibited by legislation or to misreport expenses incurred to avoid breaching statutory limits.

Inherent Limitations (Ref: Para. 10)

- A12. The risk of not detecting a material misstatement resulting from fraud exists because fraud may involve sophisticated and carefully ~~organize~~organise schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the ~~skillfulness~~skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in areas requiring ~~judgment~~judgement such as accounting estimates are caused by fraud or error.

Professional ~~Skepticism~~Scepticism and Professional ~~Judgment~~Judgement (Ref: Para. 13)

- A13. ~~ISQM~~ASQM 1³⁷ requires the firm to design, implement and operate a system of quality management for audits of ~~financial statements~~the financial report. The firm's commitment to an effective system of quality management underpins the requirement for the auditor to exercise professional ~~skepticism~~scepticism when performing the audit engagement. This commitment is ~~recognize~~recognised and reinforced in the governance and leadership component, including a:
- (a) Commitment to quality by the leadership of the firm, such as the tone at the top by leadership contributes to the firm's culture which in turn supports and encourages the auditor to focus on the auditor's responsibilities relating to fraud in an audit of ~~financial statements~~a financial report.
 - (b) Recognition that the resource needs are planned for, and resources are obtained, allocated, or assigned in a manner that is consistent with the firm's commitment to quality, such as resources with the appropriate ~~specializes~~specialised knowledge and skills that may be needed when performing audit procedures related to fraud in an audit of ~~financial statements~~a financial report.

³⁷ See ~~International~~Australian Standard on Quality Management (~~ISQM~~ASQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial ~~Statements~~Reports and Other Financial Information, or Other Assurance or Related Services Engagements.*

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- A14. ~~ISQM-ASQM~~ 1³⁸ also explains that the quality of professional ~~judgment~~~~judgements~~ exercised by the firm is likely to be enhanced when individuals making such ~~judgment~~~~judgements~~ demonstrate an attitude that includes an ~~inquiring~~~~inquiring~~ mind.

Non-Compliance with Laws and Regulations (Ref: Para. 14)

- A15. The identification by the auditor of fraud or suspected fraud affecting the entity that has been perpetrated by a third party (see paragraphs 18(a) and A21) may also give rise to additional responsibilities for the auditor in accordance with ~~ISA~~~~ASA~~ 250 ~~(Revised)~~.

Example:

- When obtaining an understanding of the entity's general IT controls, the auditor was informed of a cybersecurity breach involving un~~authorize~~~~authorise~~ access by a third party to the entity's confidential customer files, including related banking information. After obtaining an understanding of the suspected fraud, the engagement partner determined that the cybersecurity breach likely violated local data protection laws.

- A16. Complying with the requirements of this ~~ISA~~~~ASA~~ may also fulfill certain applicable requirements in ~~ISA~~~~ASA~~ 250 ~~(Revised)~~.

Example:

- When performing tests of details on a bank's loan portfolio, the auditor identified a series of loans to newly formed entities connected to senior management that lacked appropriate documentation. The auditor determined the circumstances were indicative of fraudulent approvals of loans by senior management to related parties. After obtaining an understanding of the suspected fraud in accordance with paragraph 54, the auditor concluded the understanding was also sufficient to meet the requirement in paragraph 19(a) of ~~ISA~~~~ASA~~ 250 ~~(Revised)~~. The auditor evaluated the possible effect on the ~~financial statements~~~~financial report~~ of the fine for the entity's suspected violation of banking regulations regarding related-party lending in accordance with paragraph 19(b) of ~~ISA~~~~ASA~~ 250 ~~(Revised)~~.

- A17. Law, regulation, or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the ~~Accounting Professional & Ethical Standards Board~~ Limited's ~~International Ethics Standards Board for Accountants' APES 110 Code of Ethics for Professional Accountants (including Independence Standards)~~~~International Code of Ethics for Professional Accountants (including International Independence Standards)~~ (~~IESBA-the~~ Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations.³⁹

Relationship with Other ~~ISA~~~~ASAs~~ (Ref: Para. 15)

- A18. Appendix 5 identifies other ~~ISA~~~~ASAs~~ that address specific topics that reference fraud or suspected fraud.

Definitions (Ref: Para. 18)

Relationship of Fraud with Corruption, Bribery and Money Laundering (Ref: Para. 18(a))

- A19. Depending on the nature and circumstances of the entity, certain laws, regulations or aspects of relevant ethical requirements dealing with corruption, bribery or money laundering may be

³⁸ See ~~ISQM-ASQM~~ 1, paragraph A31.

³⁹ See ~~IESBA-the~~ Code, Section 360.

relevant to the auditor's responsibilities to consider laws and regulations in an audit of ~~financial statements~~ a financial report in accordance with ISA/ASA 250 (Revised).⁴⁰

- A20. Corruption, bribery and money laundering are forms of illegal or unethical acts. Corruption, bribery, and money laundering may be distinct concepts in law or regulation; however, they may also be fraudulent acts, or may be carried out to facilitate or conceal fraud.

Examples:

- Corruption involving fraud – Management colluded with other competing parties to raise prices or lower the quality of goods or services for purchasers who wish to acquire products or services through a bidding process (i.e., bid rigging). The bid rigging included monetary payments by the designated winning bidder to colluding parties using fraudulent consulting contracts for which no actual work took place.
- Bribery to conceal fraud – Management offered inducements to employees for concealing the misappropriation of assets by management.
- Money laundering to facilitate fraud – An employee laundered money, to an offshore bank account, that was illegally obtained from embezzling payments for fictitious purchases of inventory through the creation of false purchase orders, supplier shipping documents, and supplier invoices.

- A21. While the auditor may identify or suspect corruption, bribery, or money laundering, as with fraud, the auditor does not make legal determinations on whether such acts have actually occurred.

Third-Party Fraud (Ref: Para. 18(a))

- A22. Fraud or suspected fraud committed against the entity by parties external to the entity is generally described as third-party fraud. Fraud as defined in paragraph 18(a) can include an intentional act by a third party and, accordingly, if an intentional act by a third party is identified or suspected that may have resulted in misappropriation of the entity's assets or fraudulent financial reporting by the entity, the auditor performs audit procedures in paragraphs 54–57.

- A23. Parties external to the entity that may commit third-party fraud may include:

- Related parties, where potential opportunities for collusion with management, overly complex transactions, or bias in the structure of transactions may exist, as explained in ISA/ASA 550⁴¹.
- Third parties with which the entity has a relationship to support their business model such as customers, suppliers, service providers or other external parties known to the entity. These relationships may introduce the risk of collusion with employees or others in the entity to, for example, create fictitious transactions to manipulate financial results.
- Third parties unknown to the entity that may, for example, attempt to gain ~~unauthorize~~ authorise access to an entity's IT environment that affects financial reporting or assets, or disrupts the entity's business operations or financial reporting processes.

⁴⁰ See ISA/ASA 250 (Revised), paragraphs 6 and A6.

⁴¹ See ISA/ASA 550, *Related Parties*.

Fraud Risk Factors (Ref: Para. 18(b) and 38)

- A24. The presence of fraud risk factors may affect the auditor's assessment of inherent risk or control risk. Fraud risk factors may:
- Be inherent risk factors, insofar as they affect inherent risk, and may be due to management bias. They may also arise from other identified inherent risk factors (e.g., complexity or uncertainty may create opportunities that result in a susceptibility to misstatement due to fraud). When fraud risk factors are inherent risk factors, the inherent risk is assessed before consideration of controls.
 - Relate to events or conditions that may exist in the entity's system of internal control that provide an opportunity to commit fraud and are relevant to the consideration of the entity's controls (i.e., related to control risk), and may be an indicator that other fraud risk factors are present.
- A25. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.
- A26. Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in Appendix 1. These illustrative fraud risk factors are classified based on the three conditions that are, individually or in combination, generally present when fraud exists:
- An incentive or pressure to commit fraud;
 - A perceived opportunity to commit fraud; and
 - An attitude or [rationalizationrationalisation](#) that justifies the fraudulent action.

Fraud risk factors reflective of an attitude that permits [rationalizationrationalisation](#) of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such information through, for example, the required understanding of the entity's control environment.⁴² Although the fraud risk factors described in Appendix 1 cover a broad range of situations that may be faced by auditors, they are only examples and other fraud risk factors may exist.

Professional [SkepticismScepticism](#) (Ref: Para. 12–13 and 19–22)

- A27. Maintaining professional [skepticismscepticism](#) throughout the audit involves an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as audit evidence and identified controls in the control activities component, if any, over its preparation and maintenance. Due to the characteristics of fraud, the auditor's professional [skepticismscepticism](#) is particularly important when considering the risks of material misstatement due to fraud.
- A28. The manner in which circumstances that may be indicative of fraud or suspected fraud that affects the entity come to the auditor's attention throughout the audit may vary.

Examples:

Possible sources that may provide information about circumstances that may be indicative of fraud or suspected fraud that affects the entity include:

⁴² See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 21.

- The auditor (e.g., when performing audit procedures in accordance with [ISA/ASA 550](#), the auditor becomes aware of the existence of a related party relationship that management intentionally did not disclose to the auditor).
- Those charged with governance (e.g., when members of the audit committee conduct an independent investigation of unusual journal entries and other adjustments).
- Management (e.g., when evaluating the results of the entity's risk assessment process).
- Individuals within the internal audit function (e.g., when individuals conduct the annual compliance procedures related to the entity's system of internal control).
- An employee (e.g., by filing a tip using the entity's whistleblower program).
- A former employee (e.g., by sending a complaint via electronic mail to the internal audit function).

A29. Remaining alert for circumstances that may be indicative of fraud or suspected fraud throughout the audit is important, including when performing audit procedures near the end of the audit when time pressures to complete the audit engagement may exist. For example, audit evidence may be obtained near the end of the audit that may call into question the reliability of other audit evidence obtained or cast doubt on the integrity of management or those charged with governance. Appendix 3 contains examples of circumstances that may be indicative of fraud or suspected fraud.

A30. As explained in [ISA/ASA 220 \(Revised\)](#),⁴³ conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional [skepticismscepticism](#) when designing and performing audit procedures and evaluating audit evidence. Paragraphs A35–A37 of [ISA/ASA 220 \(Revised\)](#) list examples of impediments to the exercise of professional [skepticismscepticism](#) at the engagement level, unconscious or conscious biases that may affect the engagement team's professional [judgmentjudgement](#)s, and actions that may be taken to mitigate impediments to the exercise of professional [skepticismscepticism](#).

Examples:

- A lack of cooperation and undue time pressures imposed by management negatively affected the engagement team's ability to resolve a complex and contentious issue. These circumstances were, based on the engagement partner's professional [judgmentjudgement](#), indicative of possible efforts by management to conceal fraud. The engagement partner involved more experienced members of the engagement team to deal with members of management who were difficult to interact with and communicated with those charged with governance as to the nature of the challenging circumstances, including the possible effect on the audit.
- Impediments imposed by management created difficulties for the engagement team in obtaining access to records, facilities, certain employees, customers, suppliers, and others. These circumstances were, based on the engagement partner's professional [judgmentjudgement](#), indicative of possible efforts by management to conceal fraud. The engagement partner reminded the engagement team not to be satisfied with audit evidence that was less than persuasive when responding to assessed risks of material misstatement due to fraud and communicated with those charged with governance as to the nature of the challenging circumstances, including the possible effect on the audit.

⁴³ See [ISA/ASA 220 \(Revised\)](#), paragraph A34.

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- A31. Circumstances may also be encountered which may create threats to compliance with relevant ethical requirements. [ISA/ASA 220 \(Revised\)](#)⁴⁴ discusses that relevant ethical requirements, for example the [IESBA Code](#), may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with.⁴⁵
- A32. The auditor may also address the threat to compliance with relevant ethical requirements, such as the principle of integrity, by communicating on a timely basis with those charged with governance about the circumstances giving rise to the threat. This communication may include a discussion about any inconsistencies in audit evidence obtained for which a satisfactory explanation has not been provided by management.

Inconsistent Responses

- A33. Inconsistent responses to [inquiries/enquiries](#) may include inconsistencies both between the different groups of individuals specified in paragraph 21 (i.e., management, those charged with governance, individuals within the internal audit function, or others within the entity) and among individuals within the same group. For example, the auditor may identify inconsistent responses among different individuals within management.

Conditions That Cause the Auditor to Believe That a Record or Document May Not Be Authentic or That the Terms in a Document Have Been Modified

- A34. [ISA/ASA 500](#)⁴⁶ requires the auditor to consider the reliability of information intended to be used as audit evidence when designing and performing audit procedures. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information. Authenticity is an attribute of the reliability of information that the auditor may consider. In doing so, the auditor may consider whether the source actually generated or provided the information, and was [authorize/authorised](#) to do so, and the information has not been inappropriately altered.
- A35. Audit procedures performed in accordance with [ISA/ASA 500](#), this or other [ISA/ASA](#)s, or information from other sources, may bring to the auditor's attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. The auditor is not, however, required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. Paragraph 22 applies if the auditor identifies such conditions during the course of the audit.

Examples:

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

- Unexplained alterations to documents received from external sources.
- Serial numbers used out of sequence or duplicated.
- Addresses and logos not as expected.
- Document style different to others of the same type from the same source (e.g., changes in fonts and formatting).

⁴⁴ See [ISA/ASA 220 \(Revised\)](#), paragraph A45.

⁴⁵ See [Paragraphs paragraphs R111.1 and R113.1](#) of the [IESBA Code](#) require the accountant to be straightforward and diligent when complying with the principles of integrity, and professional competence and due care, respectively. Paragraph 111.1A1 of the [IESBA Code](#) explains that integrity involves having the strength of character to act appropriately, even when facing pressure to do otherwise. Paragraph 113.1 A3 of the [IESBA Code](#) explains that acting diligently also encompasses performing an assignment carefully and thoroughly in accordance with applicable technical and professional standards. These ethical responsibilities are required irrespective of the pressures being imposed, explicitly or implicitly, by management.

⁴⁶ See [ISA/ASA 500, Audit Evidence](#), paragraph 7.

- Information that would be expected to be included is absent.
- Invoice references or descriptors that differ from other invoices received from the entity.
- Unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms (e.g., purchase costs that appear unreasonable for the goods or services being charged for).
- Information that appears implausible or inconsistent with the auditor's understanding and knowledge.
- A change from ~~authorize~~authorised signatory.
- Electronic documents with a last edited date that is after the date they were represented as ~~finalize~~finalised.

A36. When conditions are identified that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible additional audit procedures to investigate further may include:

- ~~Inquiries~~Enquiries of management or others within the entity.
- Confirming directly with the third party.
- Using the work of an expert to evaluate the document's authenticity.
- Using automated tools and techniques, such as document authenticity or integrity technology, to evaluate the authenticity of the record or document.

A37. When the results of the additional audit procedures indicate that a record or document is not authentic or that the terms in a document have been modified, the auditor may determine that the circumstances are indicative of fraud or suspected fraud and, accordingly, performs audit procedures in accordance with paragraphs 54–57.

Engagement Resources (Ref: Para. 23)

A38. ~~ISA~~ASA 220 (~~Revised~~)⁴⁷ explains that the engagement partner's determination of whether additional engagement level resources are required to be assigned to the engagement team is a matter of professional ~~judgment~~judgement and is influenced by the nature and circumstances of the audit engagement, taking into account any changes that may have arisen during the engagement.

A39. The nature, timing, and extent of the involvement of individuals with ~~specializes~~specialised skills or knowledge, such as forensic and other experts when determined to be necessary or the involvement of more experienced individuals, may vary based on the nature and circumstances of the audit engagement.

Examples:

- The entity is investigating fraud or suspected fraud that may have a material effect on the ~~financial statements~~financial report (e.g., when it involves senior management). An individual with forensic skills may assist in planning and performing audit procedures as it relates to the specific audit area where the fraud or suspected fraud was identified.
- The entity is undergoing an investigation by an authority outside the entity for fraud or suspected fraud, or for instances of non-compliance or suspected non-compliance

⁴⁷ See ~~ISA~~ASA 220 (~~Revised~~), paragraph A77.

with laws and regulations (e.g., materially misstated tax provision related to tax evasion and materially misstated revenues due to such revenues being generated from illegal activities facilitated through money laundering). Tax and anti-money laundering experts may assist with identifying those fraudulent aspects of the non-compliance or suspected non-compliance that may have a financial [statement-report](#) impact.

- The complexity of the entity's [organizationorganisational](#) structure and related party relationships, including the creation or existence of special purpose entities, may present an opportunity for management to misrepresent the financial position or financial performance of the entity. For example, an expert in taxation law may assist in understanding the business purpose and activities or business units within complex [organizationorganisations](#), including how its structure for tax purposes may be different from its operating structure.
- The complexity of the industry or regulatory environment in which the entity operates may present an opportunity or pressure for management to engage in fraudulent financial reporting. For example, an individual [specializing-specialising](#) in fraud schemes in specific emerging markets may assist in identifying fraud risk factors or where the [financial-statementsfinancial report](#) may be susceptible to risks of material misstatement due to fraud.
- The use of complex financial instruments or other complex financing arrangements may present an opportunity to inadequately disclose the risks and nature of complex structured products. For example, a valuation expert may assist in understanding the product's structure, purpose, underlying assets, and market conditions, which may highlight fraud risk factors such as discrepancies between market conditions and the valuation of the structured product.

- A40. Forensic skills, in the context of an audit of [financial-statementsa financial report](#), may combine accounting, auditing and investigative skills. Such skills may be applied in an investigation and evaluation of an entity's accounting records to obtain possible evidence of fraudulent financial reporting or misappropriation of assets, or in performing audit procedures. The use of forensic skills may also assist the auditor in evaluating whether there is management override of controls or intentional management bias in financial reporting.

Examples:

Forensic skills may include [specializespecialised](#) skills or knowledge in:

- Identifying and evaluating fraud risk factors.
- Identifying and assessing the risks of material misstatement due to fraud.
- Evaluating the effectiveness of controls implemented by management to prevent or detect fraud.
- Assessing the authenticity of information intended to be used as audit evidence.
- Gathering, [analyzinganalysing](#), and evaluating information or data using automated tools and techniques to identify links, patterns, or trends that may be indicative of fraud or suspected fraud.
- Applying knowledge in fraud schemes, and techniques for interviews, information gathering and data analytics, in the detection of fraud.
- Interviewing techniques used in discussing sensitive matters with management and those charged with governance.
- [AnalyzingAnalysing](#) financial and non-financial information by using automated tools and techniques to look for inconsistencies, unusual patterns, or anomalies that may

indicate intentional management bias or that may be the result of management override of controls.
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- A41. In determining whether the engagement team has the appropriate competence and capabilities, the engagement partner may consider matters such as expertise in IT systems or IT applications used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit (e.g., when testing a high volume of journal entries and other adjustments when responding to the risks related to management override of controls).
- A42. In determining whether the members of the engagement team collectively have the appropriate competence and capabilities to respond to identified risks of material misstatement due to fraud, the engagement partner may consider, for example:
- Assigning additional individuals with ~~specializes~~specialised skills or knowledge, such as forensic and other experts;
 - Changing the composition of the engagement team to include more experienced individuals; or
 - Assigning more experienced members of the engagement team to conduct certain audit procedures for those specific audit areas that require significant auditor attention, including to make ~~inquiries~~enquiries of management and, when appropriate in the circumstances, those charged with governance related to those specific audit areas.

Engagement Performance (Ref: Para. 24 and 29)

- A43. Depending on the nature and circumstances of the audit engagement, the engagement partner's approach to direction, supervision and review may include increasing the extent and frequency of the engagement team discussions. It may be beneficial to hold additional engagement team discussions based on the occurrence of events or conditions that have impacted the entity, which may identify new, or provide additional information about existing, fraud risk factors (see Appendix 1 for examples of fraud risk factors).

Examples:

- Sudden changes in business activity or performance (e.g., decrease in operating cashflows of an entity arising from economic conditions resulting in increased pressure internally by management to meet publicly disclosed earnings targets).
- Unexpected changes in the senior management of the entity (e.g., the chief financial officer resigns, with no explanation given for the sudden departure, providing an opportunity for other employees in the treasury department to commit fraud given the lack of senior management oversight).

Ongoing Nature of Communications with Management and Those Charged with Governance (Ref: Para. 25)

- A44. Robust two-way communication between management or those charged with governance and the auditor assists in identifying and assessing the risks of material misstatement due to fraud.
- A45. The extent of the auditor's communications with management and those charged with governance depends on the fraud-related facts and circumstances of the entity, as well as the progress and outcome of the fraud-related audit procedures performed in the audit engagement.
- A46. The appropriate timing of the communications may vary depending on the significance and nature of the fraud-related matters and the expected action(s) to be taken by management or those charged with governance.

Examples:

- Making the required [inquiriesenquiries](#) of management and those charged with governance about matters referred to in paragraphs 32(b)–32(c) and 33(b) as early as possible in the audit engagement, for example, as part of the auditor's communications regarding planning matters.
- When [ISAASA](#) 701 applies, the auditor may communicate preliminary views about key audit matters related to fraud when discussing the planned scope and timing of the audit.
- Having specific discussions with management and those charged with governance as relevant audit evidence is obtained relating to the auditor's evaluation of each of the components of the entity's system of internal control and assessment of the risks of material misstatement due to fraud. These discussions may form part of the auditor's communications on significant findings from the audit.
- Communicating, on a timely basis in accordance with [ISAASA](#) 265,⁴⁸ significant deficiencies in internal control (including those that are relevant to the prevention or detection of fraud) with the appropriate level(s) of management and those charged with governance may allow them to take necessary and timely remedial actions.

Assigning Appropriate Member(s) within the Engagement Team with the Responsibility to Communicate with Management and Those Charged with Governance

- A47. [ISAASA](#) 220-~~(Revised)~~⁴⁹ deals with the engagement partner's overall responsibility with respect to engagement resources and engagement performance. Due to the nature and sensitivity of fraud, particularly those involving senior management, assigning tasks or actions to appropriately skilled or suitably experienced members of the engagement team and providing appropriate levels of direction, supervision, and review of their work is also important for the required communications in accordance with this [ISAASA](#). This includes involving appropriately skilled or suitably experienced members of the engagement team when communicating matters related to fraud with management and those charged with governance.
- A48. [ISAASA](#) 220-~~(Revised)~~⁵⁰ deals with the engagement partner's responsibility to make members of the engagement team aware of the relevant ethical requirements. For example, the [IESBA](#) Code requires compliance with the principle of integrity, which involves standing one's ground when confronted by dilemmas and difficult situations; or challenging others as and when circumstances warrant in a manner appropriate to the circumstances. It is important, especially for those members of the engagement team who will be engaging with management and those charged with governance about matters related to fraud, to consider the content of the communications and the manner in which such communications are to be conducted.

Risk Assessment Procedures and Related Activities (Ref: Para. 26)

- A49. As explained in [ISAASA](#) 315-~~(Revised 2019)~~,⁵¹ obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and [analyzinganalysing](#) information and continues throughout the audit. Therefore, the auditor's expectations with respect to risks of material misstatements due to fraud may change as new information is obtained.

⁴⁸ See [ISA-ASA](#) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

⁴⁹ See [ISA-ASA](#) 220-~~(Revised)~~, paragraphs 25–28 and 29–34.

⁵⁰ See [ISA-ASA](#) 220-~~(Revised)~~, paragraph 17.

⁵¹ See [ISA-ASA](#) 315-~~(Revised 2019)~~, paragraph A48.

Information from Other Sources (Ref: Para. 27)

- A50. Information obtained from other sources in accordance with paragraphs 15–16 of [ISA/ASA 315 \(Revised 2019\)](#) may be relevant to the identification of fraud risk factors by providing information and insights about:
- The entity and the industry in which the entity operates and its related business risks, which may create pressures on the [organization/organisation](#) to meet targeted financial results.
 - Management's commitment to integrity and ethical values.
 - Management's commitment to remedy known significant deficiencies in internal control on a timely basis.
 - Complexity in the application of the applicable financial reporting framework due to the nature and circumstances of the entity that may create opportunities for management to perpetrate and conceal fraudulent financial activity.
- A51. In conducting an initial audit engagement in accordance with [ISA/ASA 510](#),⁵² in some circumstances, subject to law, regulation or relevant ethical requirements, the proposed successor auditor may request the predecessor auditor to provide information regarding identified or suspected fraud. Such information may give an indication of the presence of fraud risk factors or may give an indication of fraud or suspected fraud.

Retrospective Review of the Outcome of Previous Accounting Estimates (Ref: Para. 28)

- A52. The purpose of performing a retrospective review of management's [judgment/judgements](#) and assumptions related to accounting estimates reflected in the [financial statements/financial report](#) of a previous period is to evaluate whether there is an indication of a possible bias on the part of management. It is not intended to call into question the auditor's [judgment/judgements](#) about previous period accounting estimates that were appropriate based on information available at the time they were made.

Engagement Team Discussion (Ref: Para. 29)

- A53. As explained in [ISA/ASA 220 \(Revised\)](#),⁵³ the engagement partner is responsible for creating an environment that [emphasize/emphasises](#) the importance of open and robust communication within the engagement team. The engagement team discussion enables the engagement team members to share insights in a timely manner based on their skills, knowledge and experience about how and where the [financial statements/financial report](#) may be susceptible to material misstatement due to fraud.
- A54. Individuals who have [specialize/specialise](#) skills or knowledge, such as forensic and other experts, may be invited to attend the engagement team discussion to provide deeper insights about the susceptibility of the entity's [financial statements/financial report](#) to material misstatement due to fraud. The involvement and contributions of individuals with [specialize/specialise](#) skills or knowledge may elevate the quality of the discussion taking place.
- A55. The exchange of ideas may serve to inform the auditor's initial perspective about the tone at the top. The conversation may include a discussion about the actions and [behavior/behaviours](#) of management and those charged with governance, including whether there are clear and consistent actions and communications about integrity and ethical [behavior/behaviour](#) at all levels within the entity.
- A56. The following approaches may be useful to facilitate the exchange of ideas:

⁵² See [ISA-ASA 510, Initial Audit Engagements—Opening Balances](#).

⁵³ See [ISA-ASA 220 \(Revised\)](#), paragraph 14.

- ‘What-if’ scenarios – these may be helpful when discussing whether certain events or conditions create an environment at the entity where one or more individuals among management, those charged with governance, or employees have the incentive or pressure to commit fraud, a perceived opportunity to do so and some ~~rationalization~~ rationalisation of the act, and if so, how the fraud may occur.
- Automated tools and techniques – these may be used to support the discussion about the susceptibility of the entity’s ~~financial statements~~ financial report to material misstatement due to fraud. For example, automated tools and techniques may be used to support the identification of fraud risk factors, including techniques that further the understanding of incentives and pressures, such as industry or sector financial ratio benchmarking. Unusual relationships within the entity’s current period data (e.g., financial and operating data) may indicate adverse ratios or trends compared to competitors or the entity’s past performance.

A57. The exchange of ideas may include, among other matters, whether:

- The interactions, as observed by the engagement team, among management (e.g., between the chief executive officer and the chief financial officer) or between management and those charged with governance may indicate a lack of cooperation or mutual respect among the parties. This circumstance in turn may be indicative of an environment that is conducive to the existence of fraud.
- Any unusual or unexplained changes in ~~behavior~~ behaviour or lifestyle of management or employees that have come to the attention of the engagement team may indicate the possibility of fraudulent activity.
- Known information (e.g., obtained through reading trade journals, or accessing reports issued by regulatory bodies), about frauds impacting other entities that resulted in the misstatement of the ~~financial statements~~ financial report of those entities, such as entities in the same industry or geographical region, may be indicative of risks of material misstatement due to fraud for the entity being audited.
- Disclosures, or lack thereof, may be used by management to obscure a proper understanding of the entity’s ~~financial statements~~ financial report (e.g., by including too much immaterial information, by using unclear or ambiguous language, or by a lack of disclosures such as those disclosures relating to off-balance sheet financing arrangements or leasing arrangements).
- Events or conditions exist that may cast significant doubt on the entity’s ability to continue as a going concern (e.g., a drug patent of an entity in the pharmaceutical industry expired leading to a decline in revenue). In such circumstances, there may be incentives or pressures for management to commit fraud in order to conceal a material uncertainty about the entity’s ability to continue as a going concern.
- The entity has significant related party relationships and transactions (e.g., the entity has a complex ~~organization~~ organisation structure that includes several special-purpose entities controlled by management). These circumstances may provide the opportunity for management to perpetrate fraud; for example, by inflating earnings, or concealing debt.
- The entity has other third-party relationships that give rise to a fraud risk factor, or a risk of third-party fraud.

Examples:

- Based on the auditor’s understanding of the entity’s information processing activities, the auditor identified a fraud risk factor (i.e., opportunity to commit fraud) resulting from management’s lack of oversight over significant business processes outsourced to a third-party service provider.

- Based on the auditor's understanding of the entity's physical access controls, the auditor identified a fraud risk factor (i.e., opportunity to commit fraud) resulting from the entity's lack of sufficient security at locations with a material amount of small, lightweight, high-value assets.
- Based on the auditor's understanding of revenue contracts, the auditor became aware that the entity is using consignment agreements, where third parties sell the entity's inventory on its behalf, and the entity earns revenue from these sales. The auditor identified a fraud risk factor (i.e., incentive to commit fraud) resulting from the third party's incentive to underreport to the entity consigned sales in order for the third party to meet its own sales targets.

A58. The engagement team may consider other ways in which management may override controls beyond the use of journal entries and other adjustments, significant estimates or transactions outside the normal course of business.

Examples:

- Creating fictitious employee records or vendors in an attempt to transfer cash to personal accounts.
- Modifying the timing of legitimate transactions to manipulate the financial records.

A59. The engagement partner and other key engagement team members participating in the engagement team discussion may also, as applicable, use this as an opportunity to:

- **Emphasize** the importance of maintaining a questioning mind throughout the audit regarding the potential for material misstatement due to fraud.
- Remind engagement team members of their role in serving the public interest by performing quality audit engagements and the importance of engagement team members remaining objective in order to better facilitate the critical assessment of audit evidence obtained from persons within or outside the financial reporting or accounting functions, or outside the entity.
- Consider the audit procedures that may be selected to respond appropriately to the susceptibility of the entity's **financial statements** to material misstatement due to fraud, including whether certain types of audit procedures may be more effective than others and how to incorporate an element of unpredictability into the nature, timing and extent of audit procedures to be performed. Appendix 2 contains examples of procedures that incorporate an element of unpredictability.

Analytical Procedures Performed and Unusual or Unexpected Relationships Identified (Ref: Para. 30)

A60. The auditor may identify fluctuations or relationships when performing analytical procedures in accordance with **ISA 315 (Revised 2019)**⁵⁴ that are inconsistent with other relevant information or that differ from expected values significantly.

Example:

Analytical Procedure	Unexpected or Inconsistent Result of the Analytical Procedure
A comparison of the entity's recorded sales volume to the entity's production capacity.	An excess of sales volume over production capacity may be indicative of fictitious sales

⁵⁴ See **ISA 315 (Revised 2019)**, paragraph 14(b).

	or sales recorded before revenue recognition criteria have been met.
A trend analysis of revenues by month compared to sales returns by month, including during and shortly after the reporting period.	An increase in sales returns shortly after the reporting period relative to sales returns during the month may indicate the existence of undisclosed side agreements with customers involving the return of goods, which, if known, would preclude revenue recognition.

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

The Entity and Its Environment (Ref: Para. 31)

The Entity's ~~Organization~~[Organisation](#) Structure and Ownership, Governance, Objectives and Strategy, and Geographic Dispersion

- A61. Understanding the entity's ~~organization~~[organisation](#) structure and ownership assists the auditor in identifying fraud risk factors. An overly complex ~~organization~~[organisational](#) structure involving unusual legal entities or unnecessarily complex or unusual ~~organization~~[organisational](#) structures compared to other entities in the same industry may indicate that a fraud risk factor is present.

Example:

- Where there are complex intercompany transactions, this increases the opportunity to manipulate balances or create fictitious transactions.

- A62. Understanding the nature of the entity's governance arrangements assists the auditor in identifying fraud risk factors. For example, poor governance or accountability arrangements may weaken oversight and increase the opportunity for fraud (see also paragraphs A70–A81). However, some entities may have assigned the responsibility for overseeing the processes for identifying and responding to fraud in the entity to a senior member of management or to someone with designated responsibility.

Example:

If the entity is undergoing significant digital transformation activities, poor governance arrangements over newly implemented technologies impacting the entity's information system relevant to the preparation of the ~~financial statements~~[financial report](#) may increase the opportunity for fraud.

- A63. Understanding the entity's objectives and strategy assists the auditor in identifying fraud risk factors. Objectives and strategy impact expectations, internally and externally, and may create pressures on the entity to achieve financial performance targets.

Example:

When the entity has a very aggressive growth strategy, this may create pressures on personnel within the entity to commit fraud to meet the goals set.

- A64. Understanding the entity's geographic dispersion assists the auditor in identifying fraud risk factors. The entity may have operations in locations that may be susceptible to fraud, or other

illegal or unethical acts that may be carried out to facilitate or conceal fraud. The auditor may obtain information about these locations from a variety of internal and external sources, including searches of relevant databases.

Examples:

- Weak legal and regulatory frameworks that create a permissive environment for fraudulent financial reporting without significant consequences.
- Offshore financial ~~center~~[centres](#) that have less restrictive regulations and tax incentives that may facilitate fraud through money laundering.
- Cultural norms in which bribery is an accepted practice of doing business, which could lead to bribery being used to facilitate or conceal fraud.

Industry and Regulatory Environment

A65. Understanding the industry and the regulatory environment in which the entity operates assists the auditor in identifying fraud risk factors. The entity may operate in an industry that may be susceptible to fraud, or other illegal or unethical acts that may be carried out to facilitate or conceal fraud. The auditor may obtain an understanding about whether the entity operates in:

- An industry where there are greater opportunities to commit fraud (e.g., in the construction industry the revenue recognition policies may be complex and subject to significant ~~judgment~~[judgement](#) which may create an opportunity to commit fraud).
- An industry that is under pressure (e.g., a high degree of competition or market saturation, accompanied by declining margins in that sector). Such characteristics may create an incentive to commit fraud as it may be harder to achieve the financial performance targets.
- An industry that is susceptible to acts of money laundering (e.g., the banking, or gaming and gambling industries may be particularly vulnerable to money laundering, which could facilitate fraud).
- A regulatory environment that may create incentives or pressures to commit fraud (e.g., government aid programs may include thresholds to be met to obtain the aid).

Performance Measures Used, Whether Internal or External

A66. Performance measures, whether internal or external, may create pressures on the entity. These pressures, in turn, may motivate management or employees to take action to inappropriately improve the business performance or to misstate the ~~financial statements~~[financial report](#). Internal performance measures may include employee performance measures and incentive compensation policies. External performance measures may include expectations from shareholders, analysts, or other users.

Example:

Automated tools and techniques, such as analysis of disaggregated data, for example by business segment or product line, may be used by the auditor to identify inconsistencies or anomalies in the data used in performance measures.

A67. The auditor may consider listening to the entity's earnings calls with analysts or reading analysts' research reports. This may provide the auditor with information about whether analysts have aggressive or unrealistic expectations about an entity's financial performance. Auditors may also learn about management's attitudes regarding those expectations based on how management interacts with analysts. Aggressive expectations by analysts that are met by commitments by management to meet those expectations may be indicative of pressures and ~~rationalization~~[rationalisations](#) for management to manipulate key performance metrics.

A68. Other matters that the auditor may consider include:

- Management's compensation packages. When a significant portion of management's compensation packages are contingent on achieving financial targets, management may have an incentive to manipulate financial results.
- Negative media attention, short-selling reports, or negative analyst reports. When management is under pressure or intense scrutiny to respond to these matters, management may have an incentive to manipulate financial results.

Considerations specific to public sector entities

A69. In the case of a public sector entity, legislators and regulators are often the primary users of its ~~financial statements~~ [financial report](#) and may therefore have expectations in relation to external performance measures. The auditor may also consider the nature and extent of external scrutiny from other parties or citizens as management of the public sector entity may have an incentive to manipulate financial results when they are under pressure or intense scrutiny.

Understanding the Applicable Financial Reporting Framework and the Entity's Accounting Policies (Ref: Para. 31)

A70. Matters related to the applicable financial reporting framework that the auditor may consider when obtaining an understanding of where there may be an increased susceptibility to misstatement due to management bias or other fraud risk factors, include:

- Areas in the applicable financial reporting framework that require:
 - A measurement basis that results in the need for a complex method relating to an accounting estimate.
 - Management to make significant ~~judgment~~ [judgements](#), such as accounting estimates with high estimation uncertainty or where an accounting treatment has not yet been established for new and emerging financial products (e.g., types of digital assets).
 - Expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. Particularly where management can influence, and direct work performed, and conclusions reached by management's experts.
- Changes in the applicable financial reporting framework. For example, management may intentionally misapply new accounting requirements relating to amounts, classification, manner of presentation, or disclosures.
- The selection of and application of accounting policies by management. For example, management's choice of accounting policy is not consistent with similar entities in the same industry.
- The amount of an accounting estimate selected by management for recognition or disclosure in the ~~financial statements~~ [financial report](#).

Examples:

- Management may consistently trend toward one end of a range of possible outcomes that provide a more ~~favor~~ [favour](#)able financial reporting outcome for management.
- Management may use a model that applies a method that is not established or commonly used in a particular industry or environment.

Understanding the Components of the Entity's System of Internal Control

Control Environment

Entity's culture and management's commitment to integrity and ethical values (Ref: Para. 32(a)(i))

- A71. Understanding aspects of the entity's control environment that address the entity's culture and understanding management's commitment to integrity and ethical values assists the auditor in determining management's attitude and tone at the top with regards to the prevention and detection of fraud.
- A72. In considering the extent to which management demonstrates a commitment to ethical ~~behavior~~[behaviour](#), the auditor may obtain an understanding through ~~inquiries~~[enquiries](#) of management and employees, and through considering information from external sources, about:
- Management's commitment to integrity and ethical values through their actions. This is important as employees may be more likely to behave ethically when management is committed to integrity and ethical ~~behavior~~[behaviours](#).
 - The entity's communications with respect to integrity and ethical values. For example, the entity may have a mission statement, a code of ethics, or a fraud policy that sets out the expectations of entity personnel in respect to their commitment to integrity and ethical values regarding managing fraud risk. In larger or more complex entities, management may also have set up a process that requires employees to annually confirm that they have complied with the entity's code of ethics.
 - Whether the entity has developed fraud awareness training. For example, the entity may require employees to undertake ethics and code of conduct training as part of an ongoing or induction program. In a larger or more complex entity, specific training may be required for those with a role in the prevention and detection of fraud (e.g., the internal audit function).
 - Management's response to fraudulent activity. For example, where minor unethical practices are overlooked (e.g., petty theft, expenses frauds), this may indicate that more significant frauds committed by key employees may be treated in a similar lenient fashion.

The entity's whistleblower program (or other program to report fraud) (Ref: Para. 32(a)(ii))

- A73. Often frauds are discovered through tips or complaints submitted through an entity's whistleblower program. Whistleblower programs, which some entities may refer to by other names including, for example fraud reporting hotline, are designed to gather, among other things, information from employees, customers, and other stakeholders about allegations of fraud impacting the entity. A whistleblower program is often an essential component of an entity's fraud risk management.
- A74. The design of a whistleblower program will vary depending on the nature and complexity of the entity, including the entity's exposure to fraud risks. For example, more ~~formalize~~[formalise](#)d whistleblower programs may include a dedicated email, website or telephone reporting mechanism, formal training for all employees, periodic reporting to management and those charged with governance for matters reported through the program, or management of the program by a third party. Alternatively, whistleblower programs may consist of less formal processes, which may include verbal communication of the program or communication via the entity's website where tips or complaints can be received, along with monitoring performed by the entity's human resource personnel or by an independent party, such as external counsel.
- A75. When obtaining an understanding of the entity's whistleblower program, the auditor may:
- Obtain an understanding of how the entity receives tips or complaints, the objectivity and competence of the individuals involved in administering the program, the

appropriateness of the entity's processes for addressing the matters raised, including its investigation and remediation processes and protections afforded to whistleblowers. In a larger or more complex entity, the lack of a whistleblower program, or an ineffective one, may be indicative of deficiencies in the entity's control environment.

- Inspect the whistleblower program files for any tips or complaints that may allege fraud that are not under investigation by the entity, or for information that may raise questions about management's commitment to creating and maintaining a culture of honesty and ethical ~~behavior~~behaviour.
- Perform additional procedures related to allegations of fraud that are under investigation by the entity in accordance with the requirements in paragraphs 54-57.

Oversight exercised by those charged with governance (Ref: Para. 32(a)(iii))

- A76. In many jurisdictions, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of risks, including risks of fraud and the controls that address such risks. Since the responsibilities of those charged with governance and management may vary by entity and by jurisdiction, it is important that the auditor understands their respective responsibilities to enable the auditor to obtain an understanding of the oversight exercised by the appropriate individuals with respect to the prevention and detection of fraud.⁵⁵
- A77. An understanding of the oversight exercised by those charged with governance may provide insights regarding the susceptibility of the entity to management fraud, the adequacy of controls that prevent or detect fraud, and the competency and integrity of management. The auditor may obtain this understanding in several ways, such as by attending meetings where such discussions take place, reading the minutes from such meetings, or making ~~inquiries~~enquiries of those charged with governance.
- A78. The effectiveness of oversight by those charged with governance is influenced by their objectivity and familiarity with the processes and controls management has put in place to prevent or detect fraud. For example, the oversight by those charged with governance of the effectiveness of controls to prevent or detect fraud is an important aspect of their oversight role and the objectivity of such evaluation is influenced by their independence from management.

Scalability (Ref: Para. 32(a)(iii))

- A79. In some cases, all of those charged with governance are involved in managing the entity. This may be the case in a smaller or less complex entity where a single owner manages the entity and no one else has a governance role. In these cases, there is ordinarily no action on the part of the auditor because there is no oversight separate from management.

~~Inquiries~~Enquiries of those charged with governance (Ref: Para. 32(c))

- A80. The auditor may also ~~inquire~~enquire of those charged with governance about how the entity assesses the risk of fraud, and the entity's controls to prevent or detect fraud, the entity's culture and management's commitment to integrity and ethical values.
- A81. Specific ~~inquiries~~enquiries on areas that are susceptible to misstatement due to management bias or management fraud may relate to both inherent risk and control risk. Specific ~~inquiries~~enquiries may include management ~~judgment~~judgement when accounting for complex accounting estimates or unusual or complex transactions, including those in controversial or emerging areas, which may be susceptible to fraudulent financial reporting.
- A82. ~~Inquiries~~Enquiries on whether those charged with governance are aware of any control deficiencies related to the prevention and detection of fraud may inform the auditor's

⁵⁵ See ISA-ASA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs A1–A8 provide guidance about whom the auditor should be communicating with, including when the entity's governance structure is not well defined.

evaluation of the components of the entity's system of internal control. Such ~~inquiries~~enquiries may highlight conditions within the entity's system of internal control that provide opportunity to commit fraud or that may affect management's attitude or ability to ~~rationalize~~rationalise fraudulent actions. For example, understanding incentives or pressures on management that may result in intentional or unintentional management bias may inform the auditor's understanding of the entity's risk assessment process and understanding of business risks. Such information may affect the auditor's consideration of the effect on the reasonableness of significant assumptions made by, or the expectations of, management.

The Entity's Risk Assessment Process

The entity's process for identifying, assessing, and addressing fraud risks (Ref: Para. 33(a))

A83. Management may place a strong emphasis on fraud prevention by implementing a fraud risk management program. The design of the fraud risk management program may be impacted by the nature and complexity of the entity and may include the following elements:

- Establishing fraud risk governance policies.
- Performing a fraud risk assessment.
- Designing and deploying fraud preventive and detective control activities.
- Conducting investigations.
- Monitoring and evaluating the total fraud risk management program.

Identifying fraud risks (Ref: Para. 33(a)(i))

A84. The entity's risk assessment process may include an assessment of the incentives, pressures, and opportunities to commit fraud, or how the entity may be susceptible to third-party fraud. An entity's risk assessment process may also consider the potential override of controls by management as well as areas where there are control deficiencies, including a lack of segregation of duties.

A85. Where legal or regulatory requirements apply, management may consider risks relating to misappropriation of assets or fraudulent financial reporting in relation to the entity's compliance with laws or regulations. For example, a fraud risk may include the preparation of inaccurate information for a regulatory filing in order to improve the appearance of an entity's performance and thereby avoid inspection by regulatory authorities or penalties.

Considerations specific to public sector entities

A86. In the public sector, management may need to consider risks related to political pressures to achieve specific outcomes, and pressures to meet or stay within the approved budget, including expenditures subject to statutory limits.

Assessing the significance of the identified fraud risks and addressing the assessed fraud risks (Ref: Para. 33(a)(ii)–(iii))

A87. There are several approaches management may use to assess fraud risks, and the approach may vary depending on the nature and circumstances of the entity. The entity may assess fraud risks using different forms, such as a complex matrix of risk ratings or a simple narrative.

A88. When determining the likelihood of fraud, management may consider both probability and frequency (i.e., the number of fraud incidents that can be expected). Other factors that management may consider in determining the likelihood may include the volume of transactions or the quantitative benefit to the perpetrator.

A89. Management may address the likelihood of a fraud risk by taking action within the other components of the entity's system of internal control or by making changes to certain aspects of the entity or its environment. To address fraud risks, an entity may choose to cease doing

business in certain locations, reallocate authority among key personnel, or make changes to aspects of the entity's business model.

Example:

During the entity's risk assessment process relating to third-party fraud, management identified an unusual level of disbursements to recently added vendors to the entity's approved-vendor database. Upon investigating the matter, management determined that purchasing and procurement personnel had colluded with the vendors when it added those vendors to the database. Management designed and implemented controls to prevent and detect the reoccurrence of vendor-related fraud.

- A90. If the auditor identifies risks of material misstatement due to fraud that management failed to identify, the auditor is required to determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement.⁵⁶

Scalability (Ref: Para. 33(a))

- A91. In smaller and less complex entities, and in particular owner-managed entities, the way the entity's risk assessment process is designed, implemented, and maintained may vary with the entity's size and complexity. When there are no ~~formalize~~[formalise](#) processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance identify fraud risks related to the misappropriation of assets and fraudulent financial reporting, assesses the significance of the identified fraud risks and addresses the assessed risks.

~~Inquiries~~[Enquiries](#) of management and others within the entity (Ref: Para. 33(b))

- A92. Management accepts responsibility for the entity's system of internal control and for the preparation of the entity's ~~financial statements~~[financial report](#). Accordingly, it is appropriate for the auditor to make ~~inquiries~~[enquiries](#) of management regarding management's own process for identifying and responding to the entity's fraud risks. The nature, extent and frequency of management's risk assessment process may vary from entity to entity. In some entities, management's process may occur on an annual basis or as part of ongoing monitoring. In other entities, management's process may be less structured and less frequent. The nature, extent and frequency of management's risk assessment process is relevant to the auditor's understanding of the entity's control environment. For example, the fact that management does not have a risk assessment process or when the entity's risk assessment process does not address the identified fraud risks may be indicative of the lack of importance that management places on internal control.

- A93. ~~Inquiries~~[Enquiries](#) of management may provide useful information concerning the risks of material misstatements resulting from employee fraud. However, such ~~inquiries~~[enquiries](#) are unlikely to provide useful information regarding the risks of material misstatement resulting from management fraud. ~~Inquiries~~[Enquiries](#) of others within the entity may provide additional insight into fraud prevention controls, tone at the top, and culture of the ~~organization~~[organisation](#). The responses from these ~~inquiries~~[enquiries](#) may also serve to corroborate responses received from management or provide information regarding the possibility of management override of controls.

Examples:

Others within the entity to whom the auditor may direct ~~inquiries~~[enquiries](#) about the existence or suspicion of fraud include:

⁵⁶ See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 23.

- Operating personnel not directly involved in the financial reporting process.
- Employees with different levels of authority.
- Employees involved in initiating, processing, or recording complex or unusual transactions and those who supervise or monitor such employees.
- In-house legal counsel.
- Chief ethics officer, chief compliance officer or equivalent person.
- The person or persons charged with dealing with allegations of fraud

A94. Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to [inquiries](#) with an attitude of professional [skepticism](#), the auditor may judge it necessary to corroborate responses to [inquiries](#) with information from other sources.

A95. [Inquiries](#) of management and others within the entity may be most effective when they involve a discussion and when conducted by senior members of the engagement team. This allows for a two- way dialogue with the interviewees and provides the opportunity for the auditor to ask probing and clarifying questions.

The Entity's Process to Monitor the System of Internal Control

Ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud (Ref: Para. 34(a))

- A96. Matters that may be relevant for the auditor to consider when understanding those aspects of the entity's process that addresses the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies may include:
- Whether management has identified particular operating locations, or business segments for which the risk of fraud may be more likely to exist and whether management has introduced different approaches to monitor these operating locations or business segments.
 - How the entity monitors controls that address fraud risks in each component of the entity's system of internal control, including the operating effectiveness of anti-fraud controls, and the remediation of control deficiencies as necessary.

[Inquiries](#) of internal audit (Ref: Para. 34(b))

A97. The internal audit function of an entity may perform assurance and advisory activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. In that capacity, the internal audit function may identify frauds or be involved throughout a fraud investigation process. [Inquiries](#) of appropriate individuals within the internal audit function may therefore provide the auditor with useful information about instances of fraud, suspected fraud, or allegations of fraud, and the risk of fraud.

A98. [ISA](#) 315 ~~(Revised 2019)~~ and [ISA](#) 610 ~~(Revised 2013)~~ establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.⁵⁷

Examples:

⁵⁷ See [ISA](#) 315 ~~(Revised 2019)~~, paragraphs 14(a) and 24(a)(ii), and [ISA](#) 610 ~~(Revised 2013)~~, *Using the Work of Internal Auditors*.

In applying ~~ISA~~ASA 315 ~~(Revised 2019)~~ and ~~ISA~~ASA 610 ~~(Revised 2013)~~ in the context of fraud, the auditor may, for example, ~~inquire~~enquire about:

- How the entity's risk assessment process addresses the risk of fraud.
- The entity's processes and controls to prevent or detect fraud.
- The entity's culture and management's commitment to integrity and ethical values.
- Whether the internal audit function is aware of any instances of management override of controls.
- The procedures performed, if any, by the internal audit function during the year related to fraud and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures.
- The procedures performed, if any, by the internal audit function in investigating frauds and suspected violations of the entity's code of ethics and values, and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures.
- The fraud-related reports, if any, or communications prepared by the internal audit function and whether management and those charged with governance have satisfactorily responded to any findings resulting from those reports.
- Control deficiencies identified by the internal audit function that are relevant to the prevention and detection of fraud and whether management and those charged with governance have satisfactorily responded to any findings resulting from those deficiencies.

The Information System and Communication (Ref: Para. 35 and 49)

A99. Obtaining an understanding of the entity's information system and communication relevant to the preparation of the ~~financial statements~~financial report includes the manner in which an entity incorporates information from transaction processing into the general ledger. This ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. This understanding enables the auditor to identify the population of journal entries and other adjustments that is required to be tested in accordance with paragraph 49(b). Obtaining an understanding of the population may provide the auditor with insights about journal entries and other adjustments that may be susceptible to unauthorized~~authorize~~authorised or inappropriate intervention or manipulation. This may assist the auditor in designing and performing audit procedures over journal entries and other adjustments in accordance with paragraphs 49(c) and 49(d).

A100. Appendix 4 includes additional considerations when selecting journal entries and other adjustments for testing, including matters that the required understanding provides the auditor knowledge about.

A101. When performing risk assessment procedures, the auditor may consider changes in the entity's IT environment because of the introduction of new IT applications or enhancements to the IT infrastructure, which may impact the susceptibility of the entity to fraud or create vulnerabilities in the IT environment (e.g., changes to the databases involved in processing or storing transactions). There may also be an increased susceptibility to misstatement due to management bias or other fraud risk factors when there are complex IT applications used to initiate or process transactions or information, such as the use of artificial intelligence or machine learning algorithms to calculate and initiate accounting entries. In such circumstances, the auditor may assign individuals with ~~specialize~~specialised skills and knowledge, such as forensic and IT experts, or more experienced individuals to the engagement.

Control Activities (Ref: Para. 36)

- A102. Management may make ~~judgment~~[judgements](#) on the nature and extent of the controls it chooses to implement and the nature and extent of the risks it chooses to accept given the nature and circumstances of the entity. In determining which controls to implement to prevent or detect fraud, management considers the risks that the ~~financial statements~~[financial report](#) may be materially misstated due to fraud.
- A103. Controls designed to prevent or detect fraud are generally classified as either preventive (designed to prevent a fraudulent event or transaction from occurring) or detective (designed to discover a fraudulent event or transaction after the fraud has occurred). Addressing fraud risks may involve a combination of manual and automated fraud prevention and detection controls that enable the entity to monitor for indicators of fraud within the scope of its risk tolerance.

Examples:

Preventive controls

- Clearly defined and documented decision makers using delegations, ~~authorization~~[authorisations](#), and other instructions.
- Access controls, including those that address physical security of assets against ~~unauthorize~~[unauthorise](#) access, acquisition, use or disposal and those that prevent ~~unauthorize~~[unauthorise](#) access to the entity's IT environment and information, such as authentication technology.
- Controls over the process to design, program, test and migrate changes to the IT system.
- Entry level checks, probationary periods, suitability assessments or security vetting in order to assess the integrity of new employees, contractors or third parties.
- Sensitive or confidential information cannot leave the entity's IT environment without authority or detection.

Detective controls

- Exception reports to identify activities that are unusual or not in the ordinary course of business for further investigation.
- Mechanisms for employees of the entity and third parties to make anonymous or confidential communications to appropriate persons within the entity about identified or suspected fraud.
- Fraud detection software programs incorporated into the IT infrastructure that automatically ~~analyze~~[analyse](#) transactions data or enable data monitoring and analysis to detect what is different from what is standard, normal, or expected and may therefore indicate fraud.

- A104. ~~ISA~~[ASA](#) 315 ~~(Revised 2019)~~⁵⁸ requires the auditor to obtain an understanding of controls over journal entries as well as to evaluate their design and determine whether they have been implemented as part of understanding the entity's system of internal control. This understanding focuses on the controls over journal entries that address risks of material misstatement at the assertion level, whether due to fraud or error. Paragraphs 48–49 of this ~~ISA~~[ASA](#) require the auditor to design and perform audit procedures to test the appropriateness

⁵⁸ See ~~ISA~~[ASA](#) 315 ~~(Revised 2019)~~, paragraphs 26(a)(ii) and 26(d).

of journal entries and are specifically focused on the risks of material misstatement due to fraud (see Appendix 4 for additional considerations when testing journal entries).

- A105. Information from understanding controls over journal entries, designed to prevent or detect fraud, or the absence of such controls, may also be useful in identifying fraud risk factors that may affect the auditor's assessment of the risks of material misstatement due to fraud.
- A106. The following are examples of general IT controls that may address the risks arising from the use of IT and may also be relevant to the prevention or detection of fraud.

Examples:

- Controls that segregate access to make changes to a production (i.e., end user) environment.
- Access controls to manage:
 - Privileged access – such as controls over administrative or powerful users' access.
 - Provisioning – such as controls to ~~authorize~~[authorise](#) modifications to existing users' access privileges, including non-personal or generic accounts that are not tied to specific individuals within the entity
- Review of system logs that track access to the information system, enabling user activity to be monitored and security violations to be reported to management.

Scalability

- A107. For some entities whose nature and circumstances are more complex, such as those operating in the insurance or banking industries, there may be more complex preventative and detective controls in place. These controls may also affect the extent to which ~~specializes~~[specialised](#) skills are needed to assist the auditor in obtaining an understanding of the entity's risk assessment process.

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 37)

- A108. In performing the evaluations of each of the components of the entity's system of internal control, the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator, which assists the auditor in identifying deficiencies in internal control that are relevant to the prevention and detection of fraud. If the auditor has identified one or more control deficiencies relevant to the prevention or detection of fraud, the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with [ISA/ASA 330](#).
- A109. Paragraph 59(c) of this [ISA/ASA](#) and [ISA/ASA 265](#)⁵⁹ establish other requirements on identified deficiencies in internal control.

Evaluation of Fraud Risk Factors (Ref: Para. 38)

- A110. The significance of fraud risk factors varies widely. Some of these factors will be present in entities where the specific conditions do not present risks of material misstatement. Accordingly, the determination as to whether fraud risk factors, individually or in combination, indicate that there are risks of material misstatement due to fraud is a matter of professional ~~judgment~~[judgement](#).

⁵⁹ See [ISA-ASA 265](#), paragraph 8.

A111. The size, complexity, and ownership characteristics of the entity have a significant influence on the consideration of fraud risk factors. For example, depending on the nature and circumstances of the entity, there may be factors that generally constrain improper conduct by management, such as:

- Effective oversight by those charged with governance.
- An effective internal audit function.
- The existence and enforcement of a written code of conduct.
- The existence of an effective whistleblower program (or other program to report fraud).

Furthermore, fraud risk factors considered at a business segment operating level may provide different insights when compared with those obtained when considered at an entity-wide level.

Scalability

A112. In the case of a smaller or less complex entity, some or all of these considerations may not be applicable or less relevant. For example, a smaller or less complex entity may not have a written code of conduct but, instead, may have developed a culture that ~~emphasize~~emphasises the importance of integrity and ethical ~~behavior~~behaviour through oral communication and by management example. Domination of management by a single individual in a smaller or less complex entity does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management ~~authorization~~authorisation can compensate for otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual creates a conducive environment for management override of controls.

Identifying and Assessing the Risks of Material Misstatement due to Fraud (Ref: Para. 39)

A113. In determining whether fraud risk factors, individually or in combination, indicate that there are risks of material misstatement due to fraud, the auditor may consider:

- The likelihood and magnitude of fraud resulting from fraud risk factors. Fraud risk factors influence the auditor's assessment of the likelihood and magnitude of a potential misstatement for the identified risks of misstatement due to fraud. Considering the degree to which fraud risk factors affect the susceptibility of an assertion to misstatement assists the auditor in appropriately assessing risks of material misstatement at the assertion level due to fraud.
- The number of fraud risk factors that relate to the same class of transactions, account balance or disclosure. When several fraud risk factors relate to the same class of transactions, account balance or disclosure, it may indicate that there is a risk of material misstatement due to fraud at the assertion level.

A114. Determining whether the risks of material misstatement due to fraud exist at the financial ~~statement-report~~statement-report level, or the assertion level for classes of transactions, account balances and disclosures, may assist the auditor in determining appropriate responses to address the assessed risks of material misstatement due to fraud.

Examples:

Relevant assertions and the related classes of transactions, account balances or disclosures that may be susceptible to material misstatement due to fraud include:

- Accuracy or valuation of revenue from contracts with customers — revenue from contracts with customers may be susceptible to inappropriate estimates of the amount

of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

- Occurrence or classification of expenses — expenses may be susceptible to inclusion of fictitious or personal expenses to minimize-minimise tax or other statutory obligations.
- Existence of cash balances — cash balances may be susceptible to the creation of falsified or altered external confirmations or bank statements.
- Valuation of account balances involving complex accounting estimates — account balances involving complex accounting estimates such as goodwill and other intangible assets, impairment of inventories, expected credit losses, insurance contract liabilities, employee retirement benefits liabilities, environmental liabilities or environmental remediation provisions may be susceptible to high estimation uncertainty, significant subjectivity and management bias in making judgmentjudgements about future events or conditions.
- Classification — certain income or expenses may be susceptible to misclassification within the statement of comprehensive income, for example, to manipulate key performance measures.
- Presentation of disclosures — disclosures may be susceptible to omission, or incomplete or inaccurate presentation, for example, disclosures relating to contingent liabilities, off-balance sheet arrangements, financial guarantees or debt covenant requirements.

A115. Evaluating the design of controls that address significant risks, or support the operation of other controls that address significant risks, involves the auditor's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting material misstatements due to fraud (i.e., the control objective). The auditor determines whether identified controls have been implemented by establishing that the control exists, and that the entity is using it. The controls in the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control are primarily indirect controls. For example, a whistleblower program (or other program to report fraud) may be an indirect control within the control environment. Indirect controls may not be sufficiently precise to prevent, detect or correct misstatements due to fraud at the assertion level but support other controls and may therefore have an indirect effect on the likelihood that a misstatement due to fraud will be prevented or detected on a timely basis. However, some controls within these components may also be direct controls.

Considerations Specific to Public Sector Entities

A116. In the public sector, misappropriation of assets (including the misuse of public money for private benefit) may be a more common type of fraud compared to fraudulent financial reporting. In addition, there may be more opportunities for third parties to commit fraud through grant programs, contracts and social welfare or benefit programs.

Example:

- Fraud risk factors may be present when an individual with a significant role in a public sector entity has the sole authority to commit the public sector entity to sensitive expenditure, including travel, accommodation, or entertainment, and that sensitive expenditure provides personal benefits to the individual.

Risks of Material Misstatement Due to Fraud Related to Management Override of Controls (Ref: Para. 40)

- A117. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent ~~financial statements~~ **financial report** by overriding controls that otherwise appear to be operating effectively. Although the level of risks of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. See also paragraphs 47–52.
- A118. In certain circumstances, the auditor may determine that the risks of material misstatement due to fraud related to management override of controls affect individual assertions and related significant classes of transactions, account balances and disclosures. In such cases, in addition to the requirements in paragraphs 48–52, the auditor identifies these risks at the assertion level and designs and performs further audit procedures to address the assessed risks of material misstatement due to fraud at the assertion level in accordance with paragraph 46.

Examples:

- Based on the risk assessment procedures performed, the auditor identified an aggressive employee performance measure in management's incentive program related to the entities' profit and loss statement. Therefore, the auditor determined that risks of management override of controls also exist at the assertion level and identified a risk of material misstatement due to fraud related to management override of controls at the assertion level. The auditor determined that the risk relates to the completeness of expenses, as the calculation of the performance measure may be susceptible to manipulation from management via adjustments made to the expense accounts. In addition to the procedures performed as described in paragraphs 48–52, the auditor designed and performed further audit procedures to address this significant risk.
- Based on the risk assessment procedures performed, the auditor identified a pressure on management to meet the financial ratios for the entity's loan covenants to avoid insolvency. Therefore, the auditor identified a risk of material misstatement due to fraud related to management override of controls at the assertion level. The auditor determined that the risk relates to the valuation of inventory and completeness of liabilities, as the valuation methods may be susceptible to inappropriate adjustment by management or records may be manipulated to understate net liabilities. In addition to the procedures performed as described in paragraphs 48–52, the auditor designed and performed further audit procedures to address this significant risk.

Risks of Material Misstatement Due to Fraud in Revenue Recognition (Ref: Para. 41)

- A119. Material misstatement due to fraudulent financial reporting in revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may also result from an understatement of revenues through, for example, improperly deferring revenues to a later period.
- A120. The risks of material misstatement due to fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of listed entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of material misstatement due to fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales that present an opportunity for theft, or that have complex revenue recognition arrangements (e.g., licenses of intellectual property or percentage of completion) that are susceptible to management bias when determining percentage of completion for revenue recognition.
- A121. Understanding the entity's business and its environment, the applicable financial reporting framework and the entity's system of internal control helps the auditor understand the nature

of the revenue transactions, the applicable revenue recognition criteria and the appropriate industry practice related to revenue. This understanding may assist the auditor in identifying events or conditions (see examples below) relating to the types of revenue, revenue transactions, or relevant assertions, that could give rise to fraud risk factors.

Examples:

- When there are changes in the financial reporting framework relating to revenue recognition, which may present an opportunity for management to commit fraudulent financial reporting or bring to light the lack of (or significant deficiency in) controls for managing changes in the financial reporting framework.
- When an entity's accounting principles for revenue recognition are more aggressive than, or inconsistent with, its industry peers.
- When the entity operates in emerging industries.
- When revenue recognition involves complex accounting estimates.
- When revenue recognition is based on complex contractual arrangements with a high degree of estimation uncertainty, for example, construction-type or production-type contracts (e.g., tolling arrangements) and multiple-element arrangements.
- When contradictory evidence is obtained from performing risk assessment procedures.
- When the entity has a history of significant adjustments for the improper recognition of revenue (e.g., premature recognition of revenue).
- When circumstances indicate the recording of fictitious revenues.
- When circumstances indicate the omission of required disclosures or presentation of incomplete or inaccurate disclosures regarding revenue, for example, to manipulate the entity's financial performance due to pressures to meet investor / market expectations, or due to the incentive for management to ~~maximize~~maximise compensation linked to the entity's financial performance.
- When the entity is part of an unnecessarily complex structure increasing the risk of undisclosed transactions with related parties.

A122. If fraud risk factors related to revenue recognition are present, determining whether such fraud risk factors indicate a risk of material misstatement due to fraud is a matter of professional ~~judgment~~judgement. The significance of fraud risk factors (see paragraphs A109–A111) related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.

A123. There may be limited circumstances where it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where fraud risk factors are not significant.

Examples:

- Leasehold revenue from a single unit of rental property, or multiple rental properties, with a single tenant. Based on the risk assessment procedures performed, the auditor determined that leasehold revenue is not a key performance indicator for the lessor as it is predictable and stable. Therefore, there are no significant incentives or pressures related to leasehold revenue. The auditor also determined that the accounting is

outsourced to an independent asset management company such that there are no significant opportunities for management to manipulate leasehold revenue.

- Simple or straightforward ancillary revenue sources, which are determined by fixed rates or externally published rates (e.g., interest or dividend revenue from investments with level 1 inputs). Based on the risk assessment procedures performed, the auditor determined that management's key performance indicators do not relate to interest or dividend revenue from investments such that there are no significant incentives or pressures related to the interest or dividend revenue from investments because the transactions are recorded in a highly automated system with no significant opportunities for management to manipulate the interest or dividend revenue from investments.

A124. Paragraph 67(d) specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.

Considerations Specific to Public Sector Entities

A125. In public sector entities, there may be fewer incentives or pressures to engage in fraudulent financial reporting by intentionally overstating or understating revenue but there may be fraud risks related to expenditures, especially when such expenditures are subject to statutory limits.

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Unpredictability in the Selection of Audit Procedures (Ref: Para. 43)

A126. Incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures to be performed is essential, particularly where individuals within the entity who are familiar with the audit procedures normally performed on engagements may be better positioned to conceal fraudulent financial reporting and misappropriation of assets. It is therefore important that the auditor maintains an open mind to new ideas or different perspectives when selecting the audit procedures to be performed to address the risks of material misstatement due to fraud.

Examples:

- Performing further audit procedures on selected classes of transactions, account balances or disclosures that were not determined to be material.
- Performing tests of detail where the auditor performed substantive analytical procedures in previous audits.
- Adjusting the timing of audit procedures from that otherwise expected.
- Using different sampling methods or using different approaches to stratify the population.
- Performing audit procedures at different locations or at locations on an unannounced basis.
- Performing substantive analytical procedures at a more detailed level or lowering thresholds when performing substantive analytical procedures for further investigation of unusual or unexpected relationships.
- Using automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation.

A127. The extent to which the auditor chooses to incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures is a matter of professional

~~judgment~~[judgement](#). The auditor may, when incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures, refer to Appendix 2 of this [ISA/ASA](#) for examples of possible audit procedures to use when addressing the assessed risks of material misstatement due to fraud.

Overall Responses (Ref: Para. 44)

A128. In accordance with paragraph 39(b), assessed risks of material misstatement due to fraud at the financial ~~statement~~[report](#) level are also treated as significant risks. This has a significant bearing on the auditor's general approach and thereby the auditor's overall responses to such risks.

Examples:

- Increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions.
- Increased recognition of the need to corroborate management's explanations or representations concerning significant matters.
- Increased involvement of auditor's experts to assist the engagement team with complex or subjective areas of the audit.
- Changing the composition of the engagement team by, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Increasing the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- Using direct extraction methods or technologies when obtaining data from the entity's information system for use in automated tools and techniques to address the risk of data manipulation.
- Increased emphasis on tests of details.

Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level (Ref: Para. 46)

A129. In accordance with paragraph 39(b), assessed risks of material misstatement due to fraud are treated as significant risks. [ISA/ASA](#) 330 requires the auditor to obtain more persuasive evidence the higher the auditor's assessment of risk. When obtaining more persuasive audit evidence to respond to assessed risks of material misstatement due to fraud, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant and reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining audit evidence from a number of independent sources.

Examples:

Nature

- The auditor identifies that management is under pressure to meet earnings expectations and accordingly there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery. In these circumstances, the auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmations with ~~inquiries~~[enquiries](#) of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

Timing

- The auditor may conclude that performing substantive testing at or near the period end better addresses an assessed risk of material misstatement due to fraud. The auditor may conclude that, given the assessed risks of intentional misstatement or manipulation, audit procedures to extend audit conclusions from an interim date to the period end would not be effective. In contrast, because an intentional misstatement — for example, a misstatement involving improper revenue recognition — may have been initiated in an interim period, the auditor may elect to apply substantive procedures to transactions occurring earlier in or throughout the reporting period.

Extent

- The auditor may use automated tools and techniques to perform more extensive testing of digital information. Such automated techniques may be used to test all items in a population, select specific items for testing that are responsive to risks of material misstatement due to fraud, or select items for testing when performing audit sampling. For example, the auditor may stratify the population based on specific characteristics to obtain more relevant audit evidence that is responsive to the risks of material misstatement due to fraud.

External Confirmation Procedures

- A130. In applying [ISA/ASA 330](#),⁶⁰ external confirmation procedures may be considered useful when seeking audit evidence that is not biased towards corroborating or contradicting a relevant assertion in the [financial statements/financial report](#), especially in instances where risks of material misstatement due to fraud have been identified related to the class of transactions, account balance or disclosure.
- A131. [ISA/ASA 505](#)⁶¹ requires the auditor to maintain control over the external confirmation requests and to evaluate the implications of management's refusal to allow the auditor to send a confirmation request. If the auditor is unable to maintain control over the confirmation process or obtains an unsatisfactory response as to why management refuses to allow the auditor to send a confirmation request, as applicable, then this may be an indication of a fraud risk factor.
- A132. The use of external confirmation procedures may be more effective or provide more persuasive audit evidence over the terms and conditions of a contractual agreement.

Example:

The auditor may request confirmation of the contractual terms for a specific class of revenue transactions, such as pricing, payment and discount terms, applicable guarantees and the existence, or absence, of any side agreements.

- A133. [ISA/ASA 505](#)⁶² includes factors that may indicate doubts about the reliability of a response to an external confirmation request, since all responses carry some risk of interception, alteration, or fraud. This may be the case when the response to a confirmation request:
- Is sent from an e-mail address that is not [recognized/recognised](#).
 - Does not include the original electronic mail chain or any other information indicating that the confirming party is responding to the auditor's confirmation request.
 - Contains unusual restrictions or disclaimers.

⁶⁰ [ISA/ASA 330](#), paragraph 19.

⁶¹ [See ISA/ASA 505](#), *External Confirmations*, paragraphs 7 and 8.

⁶² [See ISA/ASA 505](#), paragraph A11.

- A134. ~~ISA~~ASA 505⁶³ includes guidance for the auditor when a response to a confirmation request indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

Example:

A response to a bank confirmation request indicated that a bank account, in the name of wholly owned subsidiary incorporated in an offshore financial ~~center~~centre, did not exist. Upon investigating the exception, the auditor determined that the entity misstated its ~~financial statements~~financial report by overstating its cash balance.

Examples of Other Further Audit Procedures

- A135. Examples of possible audit procedures to address the assessed risks of material misstatement due to fraud are presented in Appendix 2. The Appendix includes examples of responses to the auditor's assessment of the risks of material misstatement resulting from both fraudulent financial reporting, including fraudulent financial reporting resulting from revenue recognition, and misappropriation of assets.

Audit Procedures Responsive to Risks of Material Misstatement Due to Fraud Related to Management Override of Controls**Journal Entries and Other Adjustments (Ref: Para. 48–49)**

Why the testing of journal entries and other adjustments is performed

- A136. Material misstatements of ~~financial statements~~the financial report due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorized~~authorize~~authorise journal entries in the general ledger and other adjustments. This may occur throughout the year or at period end, or by management making adjustments to amounts reported in the ~~financial statements~~financial report that are not reflected in journal entries, such as through consolidation adjustments and reclassifications.
- A137. Testing the appropriateness of journal entries recorded in the general ledger and other adjustments (e.g., entries made directly to the ~~financial statements~~financial report such as eliminating adjustments for transactions, un~~realize~~realised profits and intra-group account balances at the group level) may assist the auditor in identifying fraudulent journal entries and other adjustments.
- A138. The auditor's consideration of the risks of material misstatement associated with management override of controls over journal entries⁶⁴ is important because automated processes and controls may reduce the risk of inadvertent error but do not overcome the risk that management may inappropriately override such automated processes and controls, for example, by changing the amounts being automatically posted in the general ledger or to the financial reporting system. Further, where IT is used to transfer information automatically, there may be little or no visible evidence of such intervention in the information systems.
- A139. In planning the audit,⁶⁵ drawing on the experience and insight of the engagement partner or other key members of the engagement team may be helpful in designing audit procedures to test the appropriateness of journal entries and other adjustments (e.g., to address the risks of management override of controls), including planning for the appropriate resources, and determining the nature, timing and extent of the related direction, supervision, and review of the work being performed.

⁶³ See ~~ISA~~ASA 505, paragraphs 14 and A21–A22.

⁶⁴ See ~~ISA~~ASA 315 (~~Revised 2019~~), paragraph 26(a)(ii).

⁶⁵ See ~~ISA~~ASA 300, Planning an Audit of ~~a Financial~~StatementsReport, paragraphs 5, 9 and 12.

Obtaining audit evidence about the completeness of the population of journal entries and other adjustments (Ref: Para. 49(b))

- A140. The population of journal entries may include manual adjustments, or other “top-side” adjustments that are made directly to the amounts reported in the [financial statements financial report](#). Failing to obtain audit evidence about the completeness of the population may limit the effectiveness of the audit procedures in responding to the risks of management override of controls associated with fraudulent journal entries and other adjustments.

Selecting journal entries and other adjustments (Ref: Para. 49(c) and 49(d))

- A141. Prior to selecting items to test, the auditor may need to consider whether the integrity of the population of journal entries and other adjustments has been maintained throughout all stages of information processing based on the auditor’s understanding and evaluation of the entity’s information system and control activities (e.g., general IT controls that safeguard and maintain the integrity of financial information) in accordance with the requirements of [ISA/ASA 315 \(Revised 2019\)](#).⁶⁶
- A142. The auditor’s understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control may assist the auditor in selecting journal entries and other adjustments for testing.

Examples:

The process of selecting journal entries and other adjustments for testing may be enhanced if the auditor leverages insights based on the auditor’s understanding about:

- How the [financial statements financial report](#) (including events and transactions) may be susceptible to material misstatement due to fraud, particularly in areas where fraud risk factors are present.
- The application of accounting principles and methods that may be susceptible to material misstatement due to management bias.
- Deficiencies in internal control that present opportunities for those charged with governance, management, or others within the entity to commit fraud.

- A143. Appendix 4 provides additional considerations that may be used by the auditor when selecting journal entries and other adjustments for testing.

Timing of testing journal entries and other adjustments (Ref: Para. 49(c) and 49(d))

- A144. Fraudulent journal entries and other adjustments are often made at the end of a reporting period; consequently, paragraph 49(c) requires the auditor to select journal entries and other adjustments made at that time.

Example:

- Among the journal entries and other adjustments most susceptible to management override of controls are manual adjusting journal entries and other adjustments directly made to the [financial statements financial report](#) that occur after the closing of a financial reporting period and have little or no explanatory support.

- A145. Paragraph 49(d) requires the auditor to determine whether there is also a need to test journal entries and other adjustments throughout the period because material misstatements due to fraud can occur throughout the period and may involve extensive efforts to conceal how the fraud is accomplished.

⁶⁶ See [ISA-ASA 315 \(Revised 2019\)](#), paragraphs 25–26.

Examples:

- Risks of material misstatement that may be strongly linked to fraud schemes that can occur over a long period of time (e.g., complex related party transaction structures that may obscure their economic substance).
- Anomalies or outliers in the journal entry data throughout the period that may be detected from the use of automated tools and techniques.

Examining the underlying support for journal entries and other adjustments selected (Ref: Para. 49(c) and 49(d))

A146. When testing the appropriateness of journal entries and other adjustments, the auditor may need to obtain and examine supporting documentation to determine the business rationale for recording them, including whether the recording of the journal entry reflects the substance of the transaction and complies with the applicable financial reporting framework.

Considering the use of automated tools and techniques when testing journal entries and other adjustments (Ref: Para. 49(b) and 49(c))

A147. The auditor may consider the use of automated tools and techniques when testing journal entries and other adjustments (e.g., determining the completeness of the population or selecting items to test). Such consideration may be impacted by the entity's use of technology in processing journal entries and other adjustments.

Accounting Estimates (Ref: Para. 50–51)

Why the review of accounting estimates for management bias is performed

A148. The preparation of the [financial statements](#)~~financial report~~ requires management to make a number of ~~judgment~~[judgements](#) or assumptions that affect accounting estimates and to monitor the reasonableness of such estimates on an ongoing basis. Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates. For example, this may be achieved by understating or overstating provisions or reserves so as to be designed either to smooth earnings over two or more accounting periods, or to achieve a designated earnings level in order to deceive financial ~~statement~~[report](#) users by influencing their perceptions as to the entity's performance and profitability.

A149. [ISA/ASA 315 \(Revised 2019\)](#) provides guidance that management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising ~~judgment~~[judgements](#) (i.e., indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional.⁶⁷

Indicators of possible management bias

A150. [ISA/ASA 540 \(Revised\)](#)⁶⁸ includes a requirement and related application material addressing indicators of possible management bias.

Examples:

Indicators of possible management bias in how management made the accounting estimates that may represent a risk of material misstatement due to fraud include:

- Changes in methods, significant assumptions, sources, or items of data selected that are not based on new circumstances or new information, which may not be reasonable

⁶⁷ See [ISA/ASA 315 \(Revised 2019\)](#), paragraph 2 of Appendix 2.

⁶⁸ See [ISA/ASA 540 \(Revised\)](#), paragraphs 32 and A133–A136.

in the circumstances nor in compliance with the applicable financial reporting framework.

- Adjustments, made to the output of the model(s), that are not appropriate in the circumstances when considering the requirements of the applicable financial reporting framework.

A151. The auditor may use automated tools and techniques to review accounting estimates for management bias.

Examples:

- [Analyzing](#)~~Analysing~~ the activity in an estimate account during the year and comparing it to the current and prior period estimates.
- Benchmarking assumptions used for the estimate, using data [visualization](#)~~visualisation~~ to understand the location of point estimates within the range of acceptable outcomes.
- Using predictive analytics to identify the likelihood of future outcomes based on historical data.

A152. If there are indicators of possible management bias that may be intentional, the auditor may consider it appropriate to involve individuals with forensic skills in performing the review of accounting estimates for management bias in accordance with paragraphs 50–51. Applying forensic skills through [analyzing](#)~~analysing~~ accounting records, conducting interviews, reviewing internal and external communications, investigating related party transactions, or reviewing internal controls may also assist the auditor in evaluating whether the indicators of possible management bias represent a material misstatement due to fraud.

Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual (Ref: Para. 52)

A153. Indicators that may suggest that significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual, may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets include:

- The form of such transactions appears overly complex (e.g., the transaction involves multiple entities within a consolidated group or multiple unrelated third parties).
- Management has not discussed the nature of and accounting for such transactions with those charged with governance of the entity, and there is inadequate documentation.
- Management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- Transactions that involve non-consolidated related parties, including special purpose entities, have not been properly reviewed or approved by those charged with governance of the entity.
- Unusual activities with no logical business rationale.
- The transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity under audit.

Auditing Standard ASA 240

The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion (Ref: Para. 53)

A154. [ISA/ASA](#) 520 explains that the analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the [financial statements/financial report](#).⁶⁹ However, the auditor may perform the analytical procedures at a more granular level for certain higher risk classes of transactions, account balances, and disclosures to determine whether certain trends or relationships may indicate a previously unidentified risk of material misstatement due to fraud. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud requires professional [judgement/judgment](#). Unusual relationships involving year-end revenue and income are particularly relevant.

Examples:

- Uncharacteristically large amounts of income being reported in the last few weeks of the reporting period.
- Unusual transactions.
- Income or expenses that is inconsistent with trends in cash flow from operations:
 - Uncharacteristically low amounts of revenue or expenses at the start of the subsequent period; or
 - Uncharacteristically high levels of refunds or credit notes at the start of the subsequent period.

A155. The auditor may use automated tools and techniques to identify unusual or inconsistent transaction posting patterns in order to determine if there is a previously [unrecognized/recognised](#) risk of material misstatement due to fraud.

Fraud or Suspected Fraud (Ref: Para. 54–57)

A156. If the auditor identifies fraud or suspected fraud, the firm's policies or procedures may include actions for the engagement partner to take, depending on the facts and circumstances of the audit engagement and the nature of the fraud.

Examples:

- Consulting with others in the firm.
- Obtaining legal advice from external counsel to understand the engagement partner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality).

A157. In accordance with [ISA/ASA](#) 220 ~~(Revised)~~,⁷⁰ the engagement partner is required to take responsibility for making the engagement team aware of the firm's policies or procedures related to relevant ethical requirements. This includes the responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity, which includes instances of fraud.

⁶⁹ See [ISA/ASA](#) 520, paragraphs A17–A19.

⁷⁰ See [ISA/ASA](#) 220 ~~(Revised)~~, paragraph 17(c).

Obtaining an Understanding of the Fraud or Suspected Fraud

- A158. The determination of which level of management is the appropriate one is a matter of professional ~~judgment~~judgement and is affected by such factors as the likelihood of collusion and the nature and magnitude of the suspected fraud. Ordinarily, the appropriate level of management is at least one level above the persons who appear to be involved with the fraud or suspected fraud.
- A159. When obtaining an understanding of the fraud or suspected fraud, the auditor may do one or more of the following depending on the facts and circumstances of the audit engagement and the nature of the fraud:
- Involve an auditor's expert, such as an individual with forensic skills.
 - Inspect the entity's whistleblower program files for additional information.
 - Make further ~~inquiries~~enquiries of:
 - The entity's in-house counsel or external legal counsel.
 - Individuals within the internal audit function (if the function exists).

Evaluating the Entity's Process to Investigate and Remediate the Fraud or Suspected Fraud

- A160. The nature and extent of the entity's process to investigate the fraud or suspected fraud undertaken by management or those charged with governance may vary based on the circumstances, and may be influenced by the entity's assessment of the significance of fraud risks relevant to the entity's financial reporting objectives. For example, an entity's whistleblower program (or other program to report fraud) may set out policies or procedures to be followed in relation to investigation and remediation of matters, including the establishment of thresholds for taking further action.

Examples:

- New allegations of fraud were made by a disgruntled former employee. Management followed the policies and procedures in place at the entity and referred the matter to the legal and human resources departments. Since the entity's policies and procedures were followed and prior allegations with similar facts and circumstances had been investigated and determined to be without merit, management determined that no further action was necessary.
- A suspected fraud involving a senior member of management was reported to those charged with governance by an employee. As a result, those charged with governance followed the policies and procedures in place at the entity, including engaging a certified fraud examiner to perform an independent forensic investigation.

- A161. When evaluating the appropriateness of the entity's investigation process and remedial actions implemented to respond to the fraud or suspected fraud in accordance with paragraphs 54(b) and 54(c), the auditor may consider:
- In relation to the entity's process to investigate the fraud or suspected fraud:
 - The objectivity and competence of individuals involved in the entity's process to investigate the fraud or suspected fraud.
 - The nature, timing and extent of procedures to investigate the fraud or suspected fraud, including identification of root causes, if applicable.
 - In relation to the entity's actions to remediate the fraud or suspected fraud:
 - Whether the remedial actions address the root cause(s).

- Whether the remedial actions are proportionate to the severity and pervasiveness of the identified fraud or suspected fraud and the urgency with which the matter needs to be addressed, including how management:
 - ◆ Responded to any misstatements that were identified (e.g., the timeliness of when the identified misstatements were corrected by management).
 - ◆ Responded to the fraud (e.g., disciplinary, or legal sanctions imposed on the individuals involved in perpetrating the fraud).
 - ◆ Addressed the control deficiencies regarding the prevention or detection of the fraud.

A162. The auditor may use information obtained from their understanding of the entity's whistleblower program in accordance with paragraph 32(a)(ii), including the entity's process for investigating and remediating allegations of fraud that came through the entity's whistleblower program, to determine whether a fraud or suspected fraud is clearly inconsequential.

Example:

- Based on an understanding of the suspected fraud obtained through understanding the entity's whistleblower program, the engagement partner determined the suspected fraud was clearly inconsequential because it was limited to the misappropriation of immaterial assets by employees.

Impact on the Overall Audit Strategy

A163. The understanding obtained about the fraud or suspected fraud impacts the engagement partner's determination of whether and how to adjust the overall audit strategy, including determining whether there is a need to perform additional risk assessment procedures or further audit procedures, especially in circumstances when information comes to the engagement partner's attention that differs significantly from the information available when the overall audit strategy was originally established.⁷¹

A164. As described in [ISA/ASA 220 \(Revised\)](#),⁷² in fulfilling the requirement in paragraph 55, the engagement partner may obtain information from other members of the engagement team (e.g., component auditors).

A165. Based on the understanding obtained about the fraud or suspected fraud and the impact on the overall audit strategy, the engagement partner may determine that it is necessary to discuss an extension of the audit reporting deadlines with management and those charged with governance, where an extension is possible under applicable law or regulation. If an extension is not possible, [ISA/ASA 705 \(Revised\)](#) deals with the implications for the auditor's opinion on the [financial statements/financial report](#).

Example:

- Based on an understanding of the suspected fraud, the engagement partner believed the integrity of management was in question. Given the significance and pervasiveness of the matter, the engagement partner determined that no further work was to be performed across the entire audit engagement until the matter had been appropriately resolved.

⁷¹ See [ISA/ASA 300](#), paragraphs 10 and A15.

⁷² See [ISA/ASA 220 \(Revised\)](#), paragraph 9.

The Auditor Identifies a Misstatement Due to Fraud

A166. [ISA/ASA 450](#)⁷³ and [ISA/ASA 700 \(Revised\)](#)⁷⁴ establish requirements and provide guidance on the evaluation of misstatements and the effect on the auditor's opinion in the auditor's report.

A167. The following are examples of qualitative or quantitative circumstances that may be relevant when determining whether the misstatement due to fraud is material:

Examples:

Qualitative circumstances include whether a misstatement:

- Involves those charged with governance, management, related parties, or third parties that brings into question the integrity or competence of those involved.
- Affects compliance with law or regulation which may also affect the auditor's consideration of the integrity of management, those charged with governance or employees.
- Affects compliance with debt covenants or other contractual requirements which may cause the auditor to question the pressures being exerted on management to meet certain earnings expectations.

Quantitative circumstances include whether a misstatement:

- Affects key performance indicators such as earnings per share, net income and working capital, that may have a negative effect on the calculation of compensation arrangements for senior management at the entity.
- Affects multiple reporting periods such as when a misstatement has an immaterial effect on the current period's [financial statements](#) [financial report](#) but is likely to have a material effect on future periods' [financial statements](#) [financial report](#).

A168. The implications of an identified misstatement due to fraud on the reliability of information intended to be used as audit evidence depends on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of information previously obtained and intended to be used as audit evidence may be called into question as there may be doubts about the completeness and truthfulness of representations made and about the authenticity of accounting records and documentation.

A169. Since fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so or some [rationalization](#) [rationalisation](#) of the act, an instance of fraud is unlikely to be an isolated occurrence. Misstatements, such as numerous misstatements at a business unit or geographical location even though the cumulative effect is not material, may also be indicative of a risk of material misstatement due to fraud.

Considerations Specific to Public Sector Entities

A170. For public sector entities, an example of both qualitative and quantitative circumstance includes whether a misstatement affects the determination of the surplus or deficit reported for the period, or whether or not the public sector entity has met or exceeded its approved budget, including where relevant, whether its expenses are within statutory limits.

⁷³ See [ISA/ASA 450](#), *Evaluation of Misstatements Identified during the Audit*.

⁷⁴ See [ISA/ASA 700 \(Revised\)](#), *Forming an Opinion and Reporting on a Financial ~~Statements~~ Report*.

Determining if Control Deficiencies Exist

A171. [ISA-ASA 265](#)⁷⁵ provides requirements and guidance about the auditor's communication of significant deficiencies in internal control identified during the audit to those charged with governance. Examples of matters that the auditor considers in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

- The susceptibility to loss due to fraud of the related asset or liability.
- The importance of the controls to the financial reporting process (e.g., controls over the prevention and detection of fraud).

A172. Indicators of significant deficiencies in internal control include, for example:

- Evidence of ineffective aspects of the control environment, such as the identification of management fraud, whether or not material, that was not prevented by the entity's system of internal control.
- The lack of a process to investigate the fraud or suspected fraud or a process to investigate the fraud or suspected fraud that is not appropriate in the circumstances.
- The lack of, or ineffective, remediation measures implemented by management to prevent or detect the reoccurrence of the fraud or suspected fraud.

Auditor Unable to Continue the Audit Engagement (Ref: Para. 58)

A173. Examples of exceptional circumstances that may arise and that may bring into question the auditor's ability to continue performing the audit include:

- The entity does not take the appropriate action regarding fraud that the auditor considers necessary in the circumstances, even where the fraud is not material to the [financial statements/financial report](#);
- The auditor's consideration of the risks of material misstatement due to fraud or the results of audit procedures performed indicate a material and pervasive fraud; or
- The auditor has significant concern about the competence or integrity of management or those charged with governance.

A174. Because of the variety of circumstances that may arise, it is not possible to describe definitively when withdrawal from an engagement is appropriate. Factors that affect the auditor's conclusion include the implications of the involvement of a member of management or of those charged with governance (which may affect the reliability of management representations) and the effects on the auditor of a continuing association with the entity.

A175. The auditor has professional and legal responsibilities in such circumstances and these responsibilities may vary by jurisdiction. In some countries, for example, the auditor may be entitled to, or required to, make a statement or report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities. Given the exceptional nature of the circumstances and the need to consider the legal requirements, the auditor may consider it appropriate to seek legal advice when deciding whether to withdraw from an engagement and in determining an appropriate course of action, including the possibility of reporting to shareholders, regulators or others.⁷⁶

Aus A175.1 [For an audit engagement under the Corporations Act 2001 \(the Act\), the possibility of withdrawing from the engagement or resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain](#)

⁷⁵ See [ISA-ASA 265](#), paragraphs 8 and A6–A7.

⁷⁶ The [IESBA](#) Code, paragraphs 320.5 A1–R320.8, provides requirements and application material on communications with the existing or predecessor accountant, or the proposed accountant.

[circumstances, obtaining consent to resign from the Australian Securities and Investments Commission \(ASIC\).](#)

Considerations Specific to Public Sector Entities

- A176. In many cases in the public sector, the option of withdrawing from the engagement may not be available to the auditor due to the nature of their legal mandate, based on public interest considerations.

Auditor's Report (Ref: Para. 59–61)

Determining Key Audit Matters Related to Fraud

- A177. Users of ~~financial statements~~[the financial report](#) are interested in matters related to fraud about which the auditor had a robust dialogue with those charged with governance. The considerations in paragraph 59 focus on the nature of matters communicated with those charged with governance that are intended to reflect matters related to fraud that may be of particular interest to intended users.
- A178. In addition to matters that relate to the specific required considerations in paragraph 59, there may be other matters related to fraud communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 60.
- A179. Matters related to fraud are often matters that require significant auditor attention. For example, the identification of fraud or suspected fraud may require significant changes to the auditor's risk assessment and ~~reevaluation~~[re-evaluation](#) of the planned audit procedures (i.e., a significant change in the audit approach).
- A180. The determination of key audit matters involves making a ~~judgment~~[judgement](#) 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~~[financial report](#) of a listed entity would not determine at least one key audit matter related to fraud. However, in certain limited circumstances, the auditor may determine that there are no matters related to fraud that are key audit matters in accordance with paragraph 60.
- A181. Accounting estimates are often the most complex areas of the ~~financial statements~~[financial report](#) because they may be dependent on significant management ~~judgment~~[judgement](#). Significant auditor attention may be required in accordance with paragraph 59(a) to respond to assessed risks of material misstatement due to fraud associated with an accounting estimate that involves significant management ~~judgment~~[judgement](#). Significant management ~~judgment~~[judgement](#) is often involved when an accounting estimate is subject to a high degree of estimation uncertainty and subjectivity.

Example:

The auditor determines significant auditor attention was required to respond to the risk of material misstatement due to fraud associated with the entity's estimate of expected credit losses. Management ~~utilizes~~[utilises](#) a model that requires a complex set of assumptions about future developments in a variety of entity-specific scenarios that are difficult to predict. Based on the auditor's identification of aggressive profitability expectations of investment analysts about the entity, the auditor identified a risk of material misstatement due to fraud because of the subjectivity involved in the expected credit losses estimate and the incentive this creates for intentional management bias.

- A182. ~~ISA~~[ASA](#) 265 requires the auditor to communicate a significant deficiency in internal control to those charged with governance that is relevant to the prevention and detection of fraud. Significant deficiencies may exist even though the auditor has not identified misstatements during the audit. For example, the lack of a whistleblower program (or other program to report fraud) may be indicative of deficiencies in the entity's control environment, but it may not

directly relate to a risk of material misstatement due to fraud. The auditor may also communicate these deficiencies to management.

- A183. This [ISA-ASA](#) requires management override of controls to be a risk of material misstatement due to fraud (see paragraph 40) and presumes that there are risks of material misstatement due to fraud in revenue recognition (see paragraph 41). 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 that certain risks of material misstatement due to fraud did 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 60.
- A184. As described in [ISA-ASA](#) 701,⁷⁷ the auditor's decision-making process in determining key audit matters is based on the auditor's professional ~~judgment~~[judgement](#) about which matters were of most significance in the audit of the ~~financial statements~~[financial report](#) of the current period. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.⁷⁸
- A185. One of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users' understanding of the ~~financial statements~~[financial report](#) as a whole.⁷⁹ As users of ~~financial statements~~[the financial report](#) are interested in matters related to fraud, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 59, would ordinarily be of most significance in the audit of the ~~financial statements~~[financial report](#) of the current period and therefore are key audit matters.
- A186. [ISA-ASA](#) 701⁸⁰ includes other considerations that may be relevant to determining which matters related to fraud that required significant auditor attention, were of most significance in the current period and therefore are key audit matters.

Communicating Key Audit Matters Related to Fraud

- A187. If a matter related to fraud is determined to be a key audit matter and there are a number of separate, but related, considerations that were of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes the matter, including that it relates to fraud.
- A188. Relating a matter directly to the specific circumstances of the entity may help to ~~minimize~~[minimise](#) the potential that such descriptions become overly ~~standardized~~[standardised](#) and less useful over time. In describing why the auditor considered the matter to be one of most significance in the audit, the auditor may highlight aspects specific to the entity (e.g., circumstances that affected the underlying ~~judgment~~[judgements](#) made in the ~~financial statements~~[financial report](#) of the current period) so as to make the description more relevant for intended users. This may be particularly important in describing a key audit matter that recurs over multiple periods. Similarly, in describing how the key audit matter related to fraud was addressed in the audit, the auditor may highlight matters directly related to the specific circumstances of the entity, while avoiding generic or ~~standardized~~[standardised](#) language.

⁷⁷ See [ISA-ASA](#) 701, paragraph 10.

⁷⁸ See [ISA-ASA](#) 701, paragraph A1.

⁷⁹ See [ISA-ASA](#) 701, paragraph A29.

⁸⁰ See [ISA-ASA](#) 701, paragraph A29.

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The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

A189. [ISA/ASA 701](#)⁸¹ includes considerations and guidance on original information (information about the entity that has not otherwise been made publicly available by the entity) that may be particularly relevant in the context of communicating key audit matters related to fraud.

A190. [ISA/ASA 701](#)⁸² describes that management or those charged with governance may decide to include new or enhanced disclosures in the ~~financial statements~~ [financial report](#) or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about identified fraud or suspected fraud or identified deficiencies in internal control that are relevant to the prevention and detection of fraud.

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

A191. [ISA/ASA 701](#), paragraph 14(b), indicates that it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report and includes guidance on circumstances in which such a matter determined to be a key audit matter is not communicated in the auditor's report. For example:

- Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter.
- There is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the ~~judgment~~ [judgement](#) not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.⁸³

A192. 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.⁸⁴ 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.

Written Representations (Ref: Para. 62)

A193. [ISA/ASA 580](#)⁸⁵ establishes requirements and provides guidance on obtaining appropriate representations from management and, where appropriate, those charged with governance in the audit. Although written representations are an important source of audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. In addition, since management are in a unique position to perpetrate fraud, it is important for the auditor to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence in drawing the conclusion required in accordance with [ISA/ASA 330](#).⁸⁶

A194. [ISA/ASA 580](#)⁸⁷ also addresses circumstances when the auditor has doubt as to the reliability of written representations, including if written representations are inconsistent with other audit

⁸¹ See [ISA-ASA 701](#), paragraphs A34–A36.

⁸² See [ISA-ASA 701](#), paragraph A37.

⁸³ See [ISA-ASA 701](#), paragraphs A53–A54.

⁸⁴ 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.

⁸⁵ See [ISA-ASA 580](#), *Written Representations*.

⁸⁶ See [ISA-ASA 330](#), paragraph 26.

⁸⁷ See [ISA-ASA 580](#), paragraphs 16–18.

evidence. Doubts about the reliability of information from management may indicate a risk of material misstatement due to fraud.

Communications with Management and Those Charged with Governance (Ref: Para. 63–65)

A195. In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

Aus A195.1 [Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a person regarding contraventions or possible contraventions of the law.* In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or those charged with governance in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement.](#)

Communication with Management (Ref: Para. 63)

A196. If the auditor identifies fraud or suspected fraud, it is important that the matter be brought to the attention of the appropriate level of management as soon as practicable, even if the matter may be considered clearly inconsequential (e.g., a minor misappropriation of funds by an employee at a low level in the entity's [organization/organisation](#)).

Communication with Those Charged with Governance (Ref: Para. 64)

A197. The auditor's communication with those charged with governance may be made orally or in writing. [ISA/ASA 260 \(Revised\)](#) identifies factors the auditor considers in determining whether to communicate orally or in writing.⁸⁸ Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the [financial statements/financial report](#), the auditor reports such matters on a timely basis and may consider it necessary to also report such matters in writing.

A198. In some cases, the auditor may consider it appropriate to communicate with those charged with governance fraud or suspected fraud involving others that the auditor determined to be clearly inconsequential. Similarly, those charged with governance may wish to be informed of such circumstances. The communication process is assisted if the auditor and those charged with governance agree at an early stage in the audit about the nature and extent of the auditor's communications in this regard.

A199. In the exceptional circumstances where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to obtain legal advice to assist in determining the appropriate course of action.

Other Matters Related to Fraud (Ref: Para. 65)

A200. Other matters related to fraud to be discussed with those charged with governance of the entity may include, for example:

* [See, for example, the Corporations Act 2001, Part 9.4AAA Protection for Whistleblowers.](#)
⁸⁸ [See ISA-ASA 260 \(Revised\), paragraph A38.](#)

- Concerns about the nature, extent, and frequency of management's assessments of the controls in place to prevent or detect fraud and of the risk that the [financial statements](#) [financial report](#) may be misstated.
- A failure by management to appropriately address identified significant deficiencies in internal control, or to appropriately respond to an identified fraud.
- The auditor's evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial [statement-report](#) users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the [authorization](#) [authorisation](#) of transactions that appear to be outside the normal course of business.

Reporting to an Appropriate Authority Outside the Entity (Ref: Para. 66)

- A201. The reporting may be to applicable regulatory, enforcement, supervisory or other appropriate authority outside the entity.
- A202. [ISA](#) [ASA](#) 250-~~(Revised)~~⁸⁹ provides further guidance with respect to the auditor's determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor's duty of confidentiality.⁹⁰
- Aus A202.1 [An auditor is required by the Corporations Act 2001 to notify the Australian Securities and Investments Commission \(ASIC\) if the auditor is aware of certain circumstances.*](#)
- A203. Factors the auditor may consider in determining whether it is appropriate to report the matter to an appropriate authority outside the entity, when not prohibited by law, regulation, or relevant ethical requirements, may include:
- Any views expressed by regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
 - Whether reporting the matter would be acting in the public interest.
- A204. Reporting fraud matters to an appropriate authority outside the entity may involve complex considerations and professional [judgment](#) [judgements](#). In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

Considerations Specific to Public Sector Entities

- A205. In the public sector, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of the audit mandate or related law, regulation, or other authority.

⁸⁹ [ISA](#) [See ASA](#) 250-~~(Revised)~~, paragraphs A28–A34.

⁹⁰ For example, paragraph R114.3 of the [IESBA](#)-Code permits the professional accountant to disclose or use confidential information where there is a legal or professional 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.

* [See ASIC Regulatory Guide 34 Auditor's obligations: reporting to ASIC \(March 2020\), which provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the Corporations Act 2001, to report contraventions and suspected contraventions to ASIC.](#)

Documentation (Ref: Para. 67)

A206. ~~ISA~~ASA 230⁹¹ addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.

Draft

⁹¹ See ~~ISA~~ASA 230, paragraphs 11 and A15.

Appendix 1

(Ref: Para. A25 and A42)

Examples of Fraud Risk Factors

The fraud risk factors identified in this Appendix are examples of such factors that may be faced by auditors in a broad range of situations. Separately presented are examples relating to the two types of fraud relevant to the auditor's consideration — that is, fraudulent financial reporting and misappropriation of assets. For each of these types of fraud, the risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/~~rationalization~~rationalisations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different size or with different ownership characteristics or circumstances. Also, the order of the examples of risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, geopolitical, or entity operating conditions, such as (or as indicated by):

- High degree of competition or market saturation, accompanied by declining margins.
- High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.
- Increased volatility in financial and commodity markets due to fluctuations in interest rates and inflationary trends.
- Significant declines in customer demand and increasing business failures in either the industry or overall economy.
- Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.
- Rapid growth or unusual profitability especially compared to that of other companies in the same industry.
- New accounting, statutory, or regulatory requirements.
- Pandemics or wars triggering major disruptions in the entity's operations, financial distress and severe cashflow shortages.
- Economic sanctions imposed by governments and international ~~organization~~organisations against a jurisdiction, including its companies and products.

Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:

- Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages.
- Need to obtain additional debt or equity financing, or qualify for government assistance or incentives, to avoid bankruptcy or foreclosure, or to stay competitive — including financing of major research and development or capital expenditures.
- Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements.
- Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as initial public offerings, mergers and acquisitions, business combinations or contract awards.
- Management enters into significant transactions that places undue emphasis on achieving key performance indicators to stakeholders (e.g., meeting earnings per share forecasts or maintaining the stock price).
- Negative media attention on the entity or key members of management.

Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following:

- Significant financial interests in the entity.
- Significant portions of their compensation (e.g., bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, cash flow, or other key performance indicators.⁹²
- Personal guarantees of debts of the entity.

There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals.

Considerations Specific to Public Sector Entities

- Public sector entities subject to statutory limits on their spending may result in inaccurate reporting of expenditure incurred.

Opportunities

The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:

- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective ~~judgment~~judgements or uncertainties that are difficult to corroborate.
- Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.

⁹² Management incentive plans may be contingent upon achieving targets relating only to certain accounts or selected activities of the entity, even though the related accounts or activities may not be material to the entity as a whole.

- Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.
- Use of business intermediaries for which there appears to be no clear business justification.
- Modifying, revoking, or amending revenue contracts through the use of side agreements that are typically executed outside the ~~recognize~~recognised business process and reporting channels.
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.
- Non-traditional entry to capital markets by the entity, for example, through an acquisition by, or merger with, a special-purpose acquisition company.
- Aggressive stock promotions by the entity through press releases, investment newsletters, website coverage, online advertisements, email, or direct mail.

The monitoring of management is not effective as a result of the following:

- Domination of management by a single person or small group (in a non-owner-managed business) without compensating controls.
- Oversight by those charged with governance over the financial reporting process and internal control is not effective.
- Weakened control environment triggered by a shift in focus by management and those charged with governance to address more immediate needs of the business such as financial and operational matters.

There is a complex or unstable ~~organization~~organisational structure, as evidenced by the following:

- Difficulty in determining the ~~organization~~organisational or individuals that have controlling interest in the entity.
- Overly complex ~~organization~~organisational structure involving unusual legal entities or managerial lines of authority.
- Overly complex IT environment relative to the nature of the entity's business, legacy IT systems from acquisitions that were never integrated into the entity's financial reporting system, or ineffective IT general controls.
- High turnover of senior management, legal counsel, or those charged with governance.

Deficiencies in internal control as a result of the following:

- Inadequate process to monitor the entity's system of internal control, including automated controls and controls over interim financial reporting (where external reporting is required).
- Inadequate fraud risk management program, including lack of a whistleblower program.
- Inadequate controls due to changes in the current environment, for example, increased data security risks from using unsecured networks that makes the entity's data and information more vulnerable to cybercrime.
- High turnover rates or employment of staff in accounting, IT, or the internal audit function that are not effective.
- Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

Attitudes/~~Rationalization~~Rationalisations

- Management and those charged with governance have not created a culture of honesty and ethical ~~behavior~~behaviour. For example, communication, implementation, support, or enforcement of the entity's values or ethical standards by management and those charged with governance are not effective, or the communication of inappropriate values or ethical standards.
- Non-financial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates.
- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations, including those dealing with corruption, bribery, and money laundering.
- Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend.
- The practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts.
- Management and those charged with governance demonstrate an unusually high tolerance to risk or display an unusually high standard of lifestyle, a pattern of significant personal financial issues, or frequently engage in high-risk activities.
- Management and those charged with governance make materially false or misleading statements in other information included in the entity's annual report (e.g., key aspects of the entity's business, products, or technology).
- Management failing to remedy known significant deficiencies in internal control on a timely basis.
- An interest by management in employing inappropriate means to ~~minimize~~minimise reported earnings for tax- motivated reasons.
- Applying aggressive valuation assumptions in mergers and acquisitions to support high purchase prices or overvalue acquired intangible assets.
- ~~Rationalizing~~Rationalising the use of unreasonable assumptions affecting the timing and amount of revenue recognition, for example, in an attempt to alleviate the negative effects of severe economic downturns.
- ~~Rationalizing~~Rationalising the use of unreasonable assumptions used in projections to account for impairment of goodwill and intangible assets, for example, to avoid ~~recognizing~~recognising significant impairment losses.
- Low morale among senior management.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality.
- The relationship between management and the current or predecessor auditor is strained, as exhibited by the following:

- Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.
- Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report.
- Restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.
- Domineering management ~~behavior~~[behaviour](#) in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement.

Risk Factors Relating to Misstatements Arising from Misappropriation of Assets

Risk factors that relate to misstatements arising from misappropriation of assets are also classified according to the three conditions generally present when fraud exists: incentives/pressures, opportunities, and attitudes/~~rationalization~~[rationalisation](#). Some of the risk factors related to misstatements arising from fraudulent financial reporting also may be present when misstatements arising from misappropriation of assets occur. For example, ineffective monitoring of management and other deficiencies in internal control may be present when misstatements due to either fraudulent financial reporting or misappropriation of assets exist. The following are examples of risk factors related to misstatements arising from misappropriation of assets.

Incentives/Pressures

Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.

Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:

- Known or anticipated future employee layoffs.
- Recent or anticipated changes to employee compensation or benefit plans.
- Promotions, compensation, or other rewards inconsistent with expectations.

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:

- Large amounts of cash on hand or processed.
- Inventory items that are small in size, of high value, or in high demand.
- Easily convertible assets, such as bearer bonds, diamonds, or computer chips.
- Fixed assets that are small in size, marketable, or lacking observable identification of ownership.

Inadequate controls over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks.
- Inadequate oversight of senior management expenditures, such as travel and other re-imbursements.

- Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations.
- Inadequate job applicant screening of employees with access to assets.
- Inadequate record keeping with respect to assets.
- Inadequate system of ~~authorization~~[authorisation](#) and approval of transactions (e.g., in purchasing).
- Inadequate physical safeguards over cash, investments, inventory, or fixed assets.
- Lack of complete and timely reconciliations of assets.
- Lack of timely and appropriate documentation of transactions, for example, credits for merchandise returns.
- Lack of mandatory vacations for employees performing key control functions.
- Inadequate management understanding of IT, which enables IT employees to perpetrate a misappropriation.
- Inadequate access controls over automated records, including controls over and review of computer systems event logs.
- Inadequate controls in supplier management, including changes in the supply chain, that may expose the entity to fictitious suppliers, or unvetted suppliers that pay kickbacks or are involved in other fraudulent or illegal activities.
- Lack of oversight by those charged with governance over how management ~~utilized~~[utilised](#) financial aid from governments and local authorities (e.g., bailouts during pandemics, wars, or impending industry collapse).

Considerations Specific to Public Sector Entities

- Trust funds under administration – public sector entities often manage assets on behalf of others, including vulnerable individuals, which can be more susceptible to misuse.
- The nature of certain revenue transactions (e.g., taxes and grants) may provide a greater opportunity to manipulate the timing or amount of revenue ~~recognize~~[recognised](#) in the current period.

Attitudes/~~Rationalization~~[Rationalisations](#)

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for controls over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control.
- ~~Behavior~~[Behaviour](#) indicating displeasure or dissatisfaction with the entity or its treatment of the employee.
- Changes in ~~behavior~~[behaviour](#) or lifestyle that may indicate assets have been misappropriated.
- Tolerance of petty theft.
- ~~Rationalizing~~[Rationalising](#) misappropriations committed during severe economic downturns by intending to pay back the entity when circumstances return to normal.

Appendix 2

(Ref: Para. A58, A125 and A133)

Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud

The following are examples of possible audit procedures to address the assessed risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets. Although these procedures cover a broad range of situations, they are only examples and, accordingly they may not be the most appropriate nor necessary in each circumstance. Also, the order of the procedures provided is not intended to reflect their relative importance.

Consideration at the Assertion Level

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- Visiting locations or performing certain tests on a surprise or unannounced basis. For example, observing inventory at locations where auditor attendance has not been previously announced or counting cash at a particular date on a surprise basis.
- Requesting that inventories be counted at the end of the reporting period or on a date closer to period end to ~~minimize~~[minimise](#) the risk of manipulation of balances in the period between the date of completion of the count and the end of the reporting period.
- Altering the audit approach in the current year. For example, contacting major customers and suppliers orally in addition to sending written confirmation, sending confirmation requests to a specific party within an ~~organization~~[organisation](#), or seeking more or different information.
- Performing a detailed review of the entity's quarter-end or year-end adjusting entries and investigating any that appear unusual as to nature or amount.
- For significant and unusual transactions, particularly those occurring at or near year-end, investigating the possibility of related parties and the sources of financial resources supporting the transactions.
- Performing substantive analytical procedures using disaggregated data. For example, comparing sales and cost of sales by location, line of business or month to expectations developed by the auditor.
- Conducting interviews of personnel involved in areas where a risk of material misstatement due to fraud has been identified, to obtain their insights about the risk and whether, or how, controls address the risk.
- Conducting interviews with personnel outside of the financial reporting function, for example, sales and marketing personnel.
- When other independent auditors are auditing the ~~financial statements~~[financial report](#) of one or more subsidiaries, divisions, or branches, discussing with them the extent of work necessary to be performed to address the assessed risk of material misstatement due to fraud resulting from transactions and activities among these components.
- If the work of an expert becomes particularly significant with respect to a financial ~~statement~~[report](#) item for which the assessed risk of material misstatement due to fraud is high, performing additional procedures relating to some or all of the expert's assumptions, methods

or findings to determine that the findings are not unreasonable or engaging another expert for that purpose.

- Performing audit procedures to ~~analyze~~[analyse](#) selected opening balance sheet accounts of previously audited ~~financial statements~~[financial report](#) to assess how certain issues involving accounting estimates and ~~judgment~~[judgements](#), for example, an allowance for sales returns, were resolved with the benefit of hindsight.
- Performing procedures on account or other reconciliations prepared by the entity, including considering reconciliations performed at interim periods.
- Using automated tools and techniques, such as data mining to test for anomalies in a population. For example, using automated tools and techniques to identify numbers that have been used frequently as there may be an unconscious bias by management or employees when posting fraudulent journal entries and other adjustments to use the same number repetitively.
- Testing the integrity of computer-produced records and transactions.
- Seeking additional audit evidence from sources outside of the entity being audited.

Considerations Specific to Public Sector Entities

- Testing whether grants or loans provided to third parties have met the relevant eligibility criteria and have been properly ~~authorize~~[authorised](#) and accounted for by the public sector entity.
- Testing whether write-offs and other adjustments of tax and levy receivable balances or loan balances have been appropriately ~~authorize~~[authorised](#).

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

Revenue Recognition

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. Automated tools and techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- Confirming with customers certain relevant contract terms and the absence of side agreements, because the appropriate accounting often is influenced by such terms or agreements and basis for rebates or the period to which they relate are often poorly documented. For example, acceptance criteria, delivery and payment terms, the absence of future or continuing supplier obligations, the right to return the product, guaranteed resale amounts, and cancellation or refund provisions often are relevant in such circumstances.
- ~~Inquiring~~[Enquiring](#) of the entity's sales and marketing personnel or in-house legal counsel regarding sales or shipments near the end of the period and their knowledge of any unusual terms or conditions associated with these transactions.
- Being physically present at one or more locations at period end to observe goods being shipped or being readied for shipment (or returns awaiting processing) and performing other appropriate sales and inventory ~~cut-off~~[cut-off](#) procedures.

- For those situations for which revenue transactions are electronically initiated, processed, and recorded, testing controls to determine whether they provide assurance that recorded revenue transactions occurred and are properly recorded.
- Examining customer correspondence files at the entity for any unusual terms or conditions that raise questions about the appropriateness of revenue ~~recognize~~recognised.
- ~~Analyzing~~Analysing the reasons provided for product returns received shortly after the end of the financial year (e.g., product not ordered, entity shipped more units than ordered).
- Determining whether revenue transactions are recorded in accordance with the applicable financial reporting framework and the entity's accounting policies. For example, goods shipped are not recorded as sales unless there is a transfer of legal title in accordance with the shipping terms especially in circumstances when the entity uses a freight forwarder or a third-party warehouse or fulfillment ~~center~~centre.

Inventory Quantities

- Examining the entity's inventory records to identify locations or items that require specific attention during or after the physical inventory count.
- Observing inventory counts at certain locations on an unannounced basis or conducting inventory counts at all locations on the same date.
- Conducting inventory counts at or near the end of the reporting period to ~~minimize~~minimise the risk of inappropriate manipulation during the period between the count and the end of the reporting period.
- Performing additional procedures during the observation of the count, for example, more rigorously examining the contents of boxed items, the manner in which the goods are stacked (e.g., hollow squares) or ~~labeled~~labelled, and the quality (that is, purity, grade, or concentration) of liquid substances such as perfumes or specialty chemicals. Using the work of an expert may be helpful in this regard.
- Comparing the quantities for the current period with prior periods by class or category of inventory, location or other criteria, or comparison of quantities counted with perpetual records.
- Using automated tools and techniques to further test the compilation of the physical inventory counts – for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.
- Verifying the accurate calibration of tools that are used to record, measure, or weigh the quantity of inventory items – for example, scales, measuring devices or scanning devices.
- Using an expert to confirm the nature of inventory quantities for ~~specialize~~specialised products – for example, the weight of the precious gemstones may be determinable, but an expert may assist with determining the cut, color, and clarity of precious gemstones.

Management Estimates

- Using an expert to develop an independent estimate for comparison with management's estimate.
- Extending ~~inquiries~~enquiries to individuals outside of management and the accounting department to corroborate management's ability and intent to carry out plans that are relevant to developing the estimate.

Specific Responses—Misstatements Due to Misappropriation of Assets

Differing circumstances would necessarily dictate different responses. Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions. Although some of the audit responses noted in the two categories above may apply in such circumstances, the scope of the work is to be linked to the specific information about the misappropriation risk that has been identified.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- Counting cash or securities at or near year-end.
- Confirming directly with customers the account activity (including credit memo and sales return activity as well as dates payments were made) for the period under audit.
- [Analyzing](#)~~Analysing~~ recoveries of written-off accounts.
- [Analyzing](#)~~Analysing~~ inventory shortages by location or product type.
- Comparing key inventory ratios to industry norm.
- Reviewing supporting documentation for reductions to the perpetual inventory records.
- Performing a [computerize](#)~~computerise~~ match of the supplier list with a list of employees to identify matches of addresses or phone numbers.
- Performing a [computerize](#)~~computerise~~ search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.
- Reviewing personnel files for those that contain little or no evidence of activity, for example, lack of performance evaluations.
- [Analyzing](#)~~Analysing~~ sales discounts and returns for unusual patterns or trends.
- Confirming specific terms of contracts with third parties.
- Obtaining evidence that contracts are being carried out in accordance with their terms.
- Reviewing the propriety of large and unusual expenses.
- Reviewing the [authorization](#)~~authorisation~~ and carrying value of senior management and related party loans.
- Reviewing the level and propriety of expense reports submitted by senior management.

Appendix 3

(Ref: Para. A28)

Examples of Circumstances that May Be Indicative of Fraud or Suspected Fraud

The following are examples of circumstances that may indicate that the ~~financial statements~~[financial report](#) may contain a material misstatement due to fraud.

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or un~~authorize~~[authorised](#) balances or transactions.
- Last-minute adjustments that significantly affect financial results (e.g., inventory adjustments).

Conflicting or missing evidence, including:

- Missing documents.
- Missing approvals or ~~authorization~~[authorisation](#) signatures.
- Signature or handwriting discrepancies and invalid electronic signatures.
- Documents that appear to have been altered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important financial ~~statement report~~[ratios or relationships](#) – for example, receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from ~~inquiries~~[enquiries](#) or analytical procedures.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Subsidiary ledgers, which do not reconcile with control accounts.
- Unexplained or inadequately explained differences between the accounts receivable sub-ledger and the control account, or between the customer statements and the accounts receivable sub-ledger.
- Unexplained fluctuations in stock account balances, inventory variances and turnover rates.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.

- Inability to produce evidence of key systems development and program change testing and implementation activities for current-year system changes and deployments.
- Information about overly optimistic projections obtained from listening to the entity's earnings calls with analysts or by reading analysts' research reports that is contrary to information presented in the entity's internal forecasts used for budgeting purposes.

Problematic or unusual relationships between the auditor and management, including:

- Denial of access to records, facilities, certain employees, customers, suppliers, or others from whom audit evidence might be sought.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Complaints by management about the conduct of the audit or management intimidation of engagement team members, particularly in connection with the auditor's critical assessment of audit evidence or in the resolution of potential disagreements with management.
- Unusual delays by the entity in providing requested information.
- An unwillingness to facilitate auditor access to key electronic files for testing through the use of automated tools and techniques.
- An unwillingness to allow a discussion between the auditor and management's third-party expert (e.g., an expert in taxation law).
- An unwillingness by management to permit the auditor to meet privately with those charged with governance.
- An unwillingness to correct a material misstatement in the [financial statements](#)[financial report](#), or in other information included in the entity's annual report.
- An unwillingness to add or revise disclosures in the [financial statements](#)[financial report](#) to make them more complete and understandable.
- An unwillingness to address identified deficiencies in internal control on a timely basis.
- An unwillingness to allow the auditor to send a confirmation request.
- An unwillingness to provide a requested written representation.

Other

- Extensive use of suspense accounts.
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's code of conduct.
- Discrepancy between earnings and lifestyle.
- Unusual, irrational, or inconsistent ~~behavior~~[behaviour](#).

- Allegations of fraud through anonymous emails, letters, telephone calls, tips or complaints that may come to the attention of the auditor.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their ~~authorize~~authorised duties.
- Controls or audit logs being switched off

Draft

Appendix 4

(Ref: Para. A99, A103 and A141)

Additional Considerations that May Inform the Auditor When Selecting Journal Entries and Other Adjustments for Testing

The following considerations are of relevance when selecting journal entries and other adjustments for testing:

- Understanding of the entity's information system and communication relevant to the preparation of the [financial statementsfinancial report](#)⁹³ (see also paragraph 35 of this [ISAASA](#)) – obtaining this required understanding provides the auditor with knowledge about:
 - The entity's policies and procedures regarding (including the individuals within the entity responsible for) how transactions are initiated, recorded, processed, corrected as necessary, incorporated in the general ledger, and reported in the [financial statementsfinancial report](#).
 - The types of journal entries (whether standard or non-standard) incorporated in the general ledger and, in turn, reported in the [financial statementsfinancial report](#), including other adjustments made directly to the [financial statementsfinancial report](#).
 - The process of how journal entries and other adjustments are recorded or made (whether automated or manual) as well as the supporting documentation required, based on the entity's policies and procedures.
 - The entity's financial [statement report](#) closing process.
- Understanding of the entity's controls designed to prevent or detect fraud over journal entries⁹⁴ (see also paragraph 36 of this [ISAASA](#)) – for many entities, routine processing of transactions involves a combination of manual and automated controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated controls across one or multiple IT systems. Where IT is used in the financial reporting process, journal entries and other adjustments may exist only in electronic form.
 - The types of controls designed to prevent or detect fraud over journal entries may include [authorizationauthorisations](#) and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls.
 - The requirement in paragraph 36 covers controls over journal entries that address a risk(s) of material misstatement due to fraud at the assertion level, and that could be susceptible to [unauthorizeauthorise](#) or inappropriate intervention or manipulation. These controls include:
 - ◆ Controls over non-standard journal entries — where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments.
 - ◆ Controls over standard journal entries — where the journal entries are automated or manual and are susceptible to [unauthorizeauthorise](#) or inappropriate intervention or manipulation.

⁹³ See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 25.

⁹⁴ See [ISA-ASA 315 \(Revised 2019\)](#), paragraph 26.

- The effectiveness of controls that have been implemented over journal entries and other adjustments— effective controls over the preparation and posting of journal entries and other adjustments may reduce the extent of substantive testing necessary, provided that the auditor has tested the operating effectiveness of the controls.
- The identification and assessment of the risks of material misstatement due to fraud — the evaluation of information obtained from the risk assessment procedures and related activities, including the consideration of information obtained from other sources, could indicate the presence of fraud risk factors. Such fraud risk factors, particularly events or conditions that indicate incentives and pressures for management to override controls, opportunities for management override, and attitudes or ~~rationalization~~[rationalisations](#) that enable management to justify override of controls, may assist the auditor to identify specific classes of journal entries and other adjustments for testing. These may include journal entries and other adjustments susceptible to un~~authorize~~[authorised](#) or inappropriate intervention or manipulation resulting from:
 - Pressures or incentives to meet or exceed performance measures used, internally and externally (e.g., auto-reversing journal entries made at year-end).
 - Pressures or incentives to ~~minimize~~[minimise](#) or avoid taxes (e.g., inappropriate journal entries to record premature or delayed revenue or expense recognition).
 - Pressures to comply with debt repayment or other debt covenant requirements (e.g., inappropriately offsetting assets and liabilities in the balance sheet by directly making adjustments to the ~~financial statements~~[financial report](#) to achieve a debt covenant on the entity's debt-to-equity ratio, even when the conditions for a right of setoff are not met).
 - Opportunities, arising from the inappropriate segregation of duties, for any individual in the entity to conceal or perpetrate fraud in the normal course of that individual's duties (e.g., journal entries and other adjustments relating to transactions affecting assets, where the individual is responsible for (a) the custody of assets, or (b) the ~~authorization~~[authorisation](#) or approval of the related transactions affecting those assets, and (c) the recording or reporting of related transactions).
 - Opportunities arising from deficiencies in internal control (e.g., journal entries and other adjustments related to purchase payments to un~~authorize~~[authorised](#) suppliers or made by terminated or transferred employees).
 - Opportunities arising from privileged access granted to individuals involved in the financial ~~statement report~~[closing process](#) (e.g., journal entries and other adjustments made by individuals with administrative or powerful users' access).
 - Opportunities arising from calculations based on end-user computing tools that support accounting estimates susceptible to misstatement due to management bias or fraud (e.g., journal entries and other adjustments based on calculations of impairment of goodwill and other intangible assets using spreadsheet software).
- The characteristics of fraudulent journal entries and other adjustments — inappropriate journal entries or other adjustments often have unique identifying characteristics. Such characteristics may include entries:
 - Made to unrelated, unusual, or seldom-used accounts.
 - Made by individuals who typically do not make journal entries.
 - Recorded at the end of the period or as post-closing entries that have little or no explanation or description.

- Made either before or during the preparation of the ~~financial statements~~[financial report](#) that do not have account numbers.
- Containing round numbers or consistent ending numbers.

The auditor may use recent information, such as data on actual perpetrated frauds or reports regarding trends in occupational fraud, to inform the auditor as to characteristics of fraudulent journal entries.

- The nature and complexity of the accounts — inappropriate journal entries or adjustments may be applied to accounts that:
 - Contain transactions that are complex or unusual in nature.
 - Contain significant estimates and period-end adjustments.
 - Have been prone to misstatements in the past.
 - Have not been reconciled on a timely basis or contain unreconciled differences.
 - Contain intercompany transactions or transaction with related parties.
 - Are otherwise associated with an identified risk of material misstatement due to fraud.
- Journal entries and other adjustments processed outside the normal course of business – non-standard journal entries may not be subject to the same nature and extent of controls as those journal entries used on a recurring basis to record transactions such as monthly sales, purchases, and cash disbursements

Appendix 5

(Ref: Para. A17)

Other [ISAASAs](#) Addressing Specific Topics that Reference Fraud or Suspected Fraud

This Appendix identifies other [ISAASAs](#) with specific requirements that refer to fraud or suspected fraud. The list does not include other [ISAASAs](#) with requirements that refer to fraud or error (e.g., [ISAASA](#) 210,⁹⁵ [ISAASA](#) 315 ~~(Revised 2019)~~, [ISAASA](#) 700 ~~(Revised)~~). The list is not a substitute for considering the requirements and related application and other explanatory material in the [ISAASAs](#).

- [ISAASA](#) 402, *Audit Considerations Relating to an Entity Using a Service Organization*~~Organisation~~, paragraph 19
- [ISAASA](#) 505, *External Confirmations* – paragraphs 8(b) and 11
- [ISAASA](#) 540 ~~(Revised)~~, *Auditing Accounting Estimates and Related Disclosures* – paragraph 32
- [ISAASA](#) 550, *Related Parties* – paragraphs 19, 22(e) and 23(a)(i)
- [ISAASA](#) 600 ~~(Revised)~~, *Special Considerations—Audits of a Group ~~Financial Statements~~ Financial Report (Including the Work of Component Auditors)* – paragraphs 38(d), 44A, 45(h), 55, 57(d) and 59(g)(i)

⁹⁵ See [ISA-ASA](#) 210, *Agreeing the Terms of Audit Engagements*.

AUASB 2025-6
(July 2025)

Auditing Standard AUASB 2025-6 *Amendments to Australian Auditing Standards*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

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PREFACE

Reasons for Issuing AUASB 2025-6

The AUASB issues Auditing Standard AUASB 2025-6 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard makes amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standards:

ASA 200	<i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i> (Issued 27 October 2009 and amended to 5 November 2021)
ASA 220	<i>Quality Management for an Audit of a Financial Report and Other Historical Financial Information</i> (Issued 10 March 2021 and amended to 27 April 2022)
ASA 230	<i>Audit Documentation</i> (Issued 27 October 2009 and amended to 27 April 2022)
ASA 250	<i>Considerations of Laws and Regulations in an Audit of a Financial Report</i> (Issued 30 May 2017 and amended to 27 April 2022)
ASA 260	<i>Communication With Those Charged With Governance</i> (Issued 1 December 2015 and amended to 28 January 2025)
ASA 265	<i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i> (Issued 27 October 2009 and amended to 3 March 2020)
ASA 300	<i>Planning an Audit of a Financial Report</i> (Issued 27 October 2009 and amended to 10 March 2021)
ASA 315	<i>Identifying and Assessing the Risks of Material Misstatement</i> (Issued 1 February 2020 and amended to 27 April 2022)
ASA 330	<i>The Auditor's Responses to Assessed Risks</i> (Issued 27 October 2009 and amended to 5 November 2021)
ASA 450	<i>Evaluation of Misstatements Identified during the Audit</i> (Issued 27 October 2009 and amended to 30 May 2017)
ASA 500	<i>Audit Evidence</i> (Issued 27 October 2009 and amended to 10 March 2021)
ASA 505	<i>External Confirmations</i> (Issued 27 October 2009 and amended to 3 March 2020)
ASA 530	<i>Audit Sampling</i> (Issued 27 October 2009 and amended to 3 March 2020)
ASA 540	<i>Auditing Accounting Estimates and Related Disclosures</i> (Issued 5 December 2018 and amended to 5 November 2021)

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ASA 550	<i>Related Parties</i> (Issued 27 October 2009 and amended to 27 April 2022)
ASA 570	<i>Going Concern</i> (Issued 1 December 2015 and amended to 15 March 2023)
ASA 580	<i>Written Representations</i> (Issued 27 October 2009 and amended to 15 March 2023)
ASA 600	<i>Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)</i> (Issued 13 May 2022 and amended to 16 December 2024)
ASA 610	<i>Using the Work of Internal Auditors</i> (Issued 11 November 2013 and amended to 27 April 2022)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued 1 December 2015 and amended to 28 January 2025)
ASA 701	<i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Issued 1 December 2015 and amended to 27 April 2022)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (Issued 1 December 2015 and amended to 15 March 2023)
ASA 800	<i>Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i> (Issued 26 July 2016 and amended to 7 September 2021)

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard AUASB 2025-6 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

D Niven
Chair - AUASB

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

AUDITING STANDARD AUASB 2025-6
Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 15 December 2026. It is also required to be applied where ASA 240 (July 2025) is applied early.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to Australian Auditing Standards. The amendments arise from consequential and conforming changes arising from the issuance of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

Objective

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Issued 27 October 2009 and amended to 5 November 2021)
 - (b) ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (Issued 10 March 2021 and amended to 27 April 2022)
 - (c) ASA 230 *Audit Documentation* (Issued 27 October 2009 and amended to 27 April 2022)
 - (d) ASA 250 *Considerations of Laws and Regulations in an Audit of a Financial Report* (Issued 30 May 2017 and amended to 27 April 2022)
 - (e) ASA 260 *Communication With Those Charged With Governance* (Issued 1 December 2015 and amended to 28 January 2025)
 - (f) ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* (Issued 27 October 2009 and amended to 3 March 2020)
 - (g) ASA 300 *Planning an Audit of a Financial Report* (Issued 27 October 2009 and amended to 10 March 2021)
 - (h) ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (Issued 1 February 2020 and amended to 27 April 2022)

- (i) ASA 330 *The Auditor's Responses to Assessed Risks* (Issued 27 October 2009 and amended to 5 November 2021)
- (j) ASA 450 *Evaluation of Misstatements Identified during the Audit* (Issued 27 October 2009 and amended to 30 May 2017)
- (k) ASA 500 *Audit Evidence* (Issued 27 October 2009 and amended to 10 March 2021)
- (l) ASA 505 *External Confirmations* (Issued 27 October 2009 and amended to 3 March 2020)
- (m) ASA 530 *Audit Sampling* (Issued 27 October 2009 and amended to 3 March 2020)
- (n) ASA 540 *Auditing Accounting Estimates and Related Disclosures* (Issued 5 December 2018 and amended to 5 November 2021)
- (o) ASA 550 *Related Parties* (Issued 27 October 2009 and amended to 27 April 2022)
- (p) ASA 570 *Going Concern* (Issued 1 December 2015 and amended to 15 March 2023)
- (q) ASA 580 *Written Representations* (Issued 27 October 2009 and amended to 15 March 2023)
- (r) ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued 13 May 2022 and amended to 16 December 2024)
- (s) ASA 610 *Using the Work of Internal Auditors* (Issued 11 November 2013 and amended to 27 April 2022)
- (t) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (Issued 1 December 2015 and amended to 28 January 2025)
- (u) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (Issued 1 December 2015 and amended to 27 April 2022)
- (v) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (Issued 1 December 2015 and amended to 15 March 2023)
- (w) ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (Issued 26 July 2016 and amended to 7 September 2021)

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

7. Where relevant, this Standard uses underlining, striking out and other typographical material to identify the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.
8. Where this amending standard inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated.

Amendments to ASA 200

9. Existing footnote 2 in paragraph 9 is amended to read as follows:

See, for example, ASA 260 *Communication with Those Charged with Governance*; and ~~paragraph 43 of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs 63-66.~~

10. Existing footnote 15 in paragraph A24 is amended to read as follows:

See ASA 240, paragraph ~~43~~22; ASA 500, paragraph 11; and ASA 505 *External Confirmations*, paragraphs 10-11 and 16.

Amendments to ASA 220

11. Existing paragraph A37 is amended to read as follows:

Possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism 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.
- ...

Amendments to ASA 230

12. Existing Appendix 1 is amended to read as follows:

Specific Audit Documentation Requirements in Other Australian Auditing Standards

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

- ASA 210 *Agreeing the Terms of Audit Engagements* – paragraphs 10-12
- ...
- ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* – paragraphs ~~44-47~~67
- ...

Amendments to ASA 250

13. Existing paragraph A17 is amended to read as follows:

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~~whistleblower).

Amendments to ASA 260

14. Existing Appendix 1 is amended to read as follows:

This appendix identifies paragraphs in ASQM 1 and other Australian Auditing Standards 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 Australian Auditing Standards.

- ...
- *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* – paragraphs ~~21, 38(e)(i)~~25, 32(c), 54(a), 58(c)(i) and 40–42~~64–65~~
- ...

Amendments to ASA 265

15. Existing paragraph A6 is amended to read as follows:

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.
 - ...

16. Existing footnote 10 in paragraph A21 is amended to read as follows:

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph ~~41~~64.

Amendments to ASA 300

17. Existing footnote 11 in paragraph A5 is amended to read as follows:

ASA 315, 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 report. ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph ~~46~~29, provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial report to material misstatement due to fraud.

Amendments to ASA 315

18. Existing footnote 11 in paragraph 12(f) is amended to read as follows:

See ASA 240, paragraphs ~~A24–A27~~A23–A25.

19. Existing footnote 12 in paragraph 12(l) is amended to read as follows:

See ASA 240, paragraph ~~28~~39(b) and ASA 550, Related Parties, paragraph 18.

20. Existing paragraph 35 is amended to read as follows:

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)

21. Existing footnote 15 in paragraph A11 is amended to read as follows:

See ASA 240, paragraphs ~~17–28~~26–41.

22. Existing footnote 26 in paragraph A42 is amended to read as follows:

See ASA 240, paragraph ~~16~~29.

23. Existing paragraph A50 is amended to read as follows:

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 report, 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 judgement and professional scepticism throughout the audit, for example, when:

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

24. Existing paragraph A74 is amended to read as follows:

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

25. Existing paragraph A89 is amended to read as follows:

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~~38 of ASA 240, which requires the auditor to evaluate whether the ~~information~~audit evidence obtained from the ~~other~~ risk assessment procedures and related activities indicates that one or more fraud risk factors are present.

26. Existing footnote 36 in paragraph A109 is amended to read as follows:

See ASA 240, paragraph ~~19~~33(b)(i).

27. Existing footnote 39 in paragraph A157 is amended to read as follows:

See ASA 240, paragraph ~~A28~~A111.

28. Existing footnote 41 in paragraph A159 is amended to read as follows:

See ASA 240, paragraphs ~~28~~36, 39(b) and ~~A33~~A101.

29. Existing paragraph A195 is amended to read as follows:

Risks of material misstatement at the financial report level refer to risks that relate pervasively to the financial report 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 report supports the auditor's assessment of the risks of material misstatement at the financial report 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.

30. Existing footnote 58 in paragraph A220 is amended to read as follows:

See ASA 240, paragraphs ~~26–28~~39–41.

31. Existing footnote 71 in Appendix 2 is amended to read as follows:

See ASA 240, paragraphs ~~A24–A27~~A23–A25.

32. Existing paragraph 2 of Appendix 2 is amended to read as follows:

Inherent risk factors relating to the preparation of information required by the applicable financial reporting framework (referred to in this paragraph as “required information”) include:

- ...
- *Susceptibility* to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk —susceptibility to management bias results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in 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 judgement (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 ~~A+A2~~ to ~~A5~~A6 of ASA 240.

...

33. Existing paragraph 6(b) of Appendix 3 is amended to read as follows:

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 recognised 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).

34. Existing paragraph 5 of Appendix 4 is amended to read as follows:

In addition, in accordance with ASA 240, 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.

35. Existing footnote 74 in Appendix 4 is amended to read as follows:

See ASA 240, paragraph ~~49~~34(b).

Amendments to ASA 330

36. Existing paragraph A11 is amended to read as follows:

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.

37. Existing paragraph A62 is amended to read as follows:

An audit of a financial report 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 re-evaluate 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. ASA 315 contains further guidance on revising the auditor's risk assessment.

Amendments to ASA 450

38. The following paragraph is inserted above existing paragraph 6 of this Auditing Standard:

If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. (Ref: Para. A6)

39. Existing footnote 8 in paragraph A1 is amended to read as follows:

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs ~~A1-A6~~A3-A6.

40. The following paragraph and footnote are inserted following existing paragraph A6 of this Auditing Standard:

Consideration of Identified Misstatements as the Audit Progresses (Ref: Para. ~~6-7~~8)

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 ASA 240,¹⁰ recognising that an instance of fraud is unlikely to be an isolated occurrence.

41. Existing footnote 16 in paragraph A22 is amended to read as follows:

See ASA 240, paragraph ~~35~~56.

Amendments to ASA 500

42. Existing footnote 17 in paragraph A37 is amended to read as follows:

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph ~~13~~22.

Amendments to ASA 505

43. Existing paragraph 3 is amended to read as follows:

Other Auditing Standards recognise the importance of external confirmations as audit evidence, for example:

- ...
- ASA 240 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.
- ...

44. Existing footnote 10 in paragraph 3 is amended to read as follows:

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs ~~A128–A132~~A37.

45. Existing paragraph 8 is amended to read as follows:

If management refuses to allow the auditor to send a confirmation request, the auditor shall:

- (a) ...
- (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 fraud, and on the nature, timing and extent of other audit procedures; and (Ref: Para. A9)
- (c) ...

46. Existing paragraph 11 is amended to read as follows:

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

47. Existing paragraph A4 is amended to read as follows:

¹⁰ See ASA 240, paragraphs 54–57.

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~~.
- ...

48. Existing footnote 15 in paragraph A9 is amended to read as follows:

See ASA 240, paragraph ~~24~~38.

49. Existing footnote 19 in paragraph A17 is amended to read as follows:

See ASA 240, paragraph ~~24~~38.

50. Existing footnote 21 in paragraph A19 is amended to read as follows:

See ASA 240, paragraph ~~24~~38.

51. Existing paragraph A21 is amended to read as follows:

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 ASA 450²²~~ASA 240~~ to evaluate whether such misstatement is indicative of fraud.²² 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.

Amendments to ASA 530

52. Existing paragraph A6 is amended to read as follows:

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.

Amendments to ASA 540

53. Existing paragraph A57 is amended to read as follows:

A retrospective review of management judgements and assumptions related to ~~significant~~ accounting estimates is required by ASA 240. As a practical matter, the auditor's review of previous accounting estimates as a risk assessment procedure in accordance with this Auditing Standard may be carried out in conjunction with the review required by ASA 240.

54. Existing footnote 41 in paragraph A57 is amended to read as follows:

²² See ASA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 6.
²³ See ASA 240, paragraph 35.

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph ~~33(b)(ii)~~28.

55. Existing paragraph A136 is amended to read as follows:

In addition, in applying ASA 240, the auditor is required to evaluate whether management's judgements and decisions in making the accounting estimates included in the financial report, even if they are individually reasonable, are ~~indicate~~indicators of possible management bias that may represent a material misstatement due to fraud.⁶² 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,⁶² 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.

Amendments to ASA 550

56. Existing footnote 4 in paragraph 5 is amended to read as follows:

See ASA 240, paragraph ~~24~~38.

57. Existing footnote 7 in paragraph 11 is amended to read as follows:

See ASA 315, paragraph 13; and ASA 240, paragraph ~~17~~26.

58. Existing footnote 8 in paragraph 12 is amended to read as follows:

See ASA 315, paragraph 17; and ASA 240, paragraph ~~16~~29.

59. Existing footnote 11 in paragraph 23 is amended to read as follows:

See ASA 240, paragraph ~~33(c)~~52.

60. Existing paragraph A17 is amended to read as follows:

In meeting the ASA 315 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.

61. Existing footnote 23 in paragraph A19 is amended to read as follows:

See ASA 240, paragraphs ~~31~~40 and ~~A4~~A5.

62. Existing paragraph A33 is amended to read as follows:

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 ASA 240, perform audit procedures such as the following to obtain an understanding of the business relationships that such a related party may have established directly or indirectly with the entity and to determine the need for further appropriate substantive audit procedures:

- ...

⁶² See ASA 240, paragraph 33(b).

⁶² See ASA 240, paragraphs 50–51.

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

Amendments to ASA 570

63. Existing footnote 18 in paragraph A8 is amended to read as follows:

See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph ~~24~~27.

64. Existing footnote 24 in paragraph A31 is amended to read as follows:

See ASA 240, paragraphs ~~26–28~~39–41.

65. Existing footnote 36 in paragraph A71 is amended to read as follows:

See ASA 240, paragraph ~~25~~38.

Amendments to ASA 580

66. Existing Appendix 1 is amended to read as follows:

List of Australian Auditing Standards Containing Requirements for Written Representations

ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of the Financial Report* – paragraph ~~40~~62

...

67. Existing Appendix 2 is amended to read as follows:

Illustrative Representation Letter

...

Information Provided

- We have provided you with:
- ...
- 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;
 - ...
 - Others where the fraud could have a ~~material~~material effect on the financial report. (ASA 240)
- 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 report communicated by employees, former employees, analysts, regulators or others. (ASA 240)
- ...

Amendments to ASA 600

68. The following paragraph and footnote are inserted after existing paragraph 44 of this Auditing Standard:

In applying ASA 240,²⁸ the group auditor shall take responsibility for obtaining an understanding of identified fraud or suspected fraud.

69. Existing paragraph 45 is amended to read as follows:

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)

- (a) ...
- (h) Fraud or suspected fraud 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~~ the component financial information;
- (i) ...

70. Existing paragraph 55 is amended to read as follows:

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)

71. Existing paragraph 57 is amended to read as follows:

The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by ASA 260[30] and other ASAs: (Ref: Para. A163)

- (a) ...
- (d) Fraud or suspected fraud involving:
 - (i) ~~Group management or~~ component management;
 - (ii) ~~Employees who have significant roles in the group's system of internal control;~~ or
 - (iii) ~~Others, except for matters that are clearly inconsequential when the fraud resulted in a material misstatement of the group financial report.~~

72. Existing paragraph 59 is amended to read as follows:

In accordance with ASA 230, 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 ASA 230, the group auditor shall include in the audit documentation: (Ref: Para. A166–A169, A179–A182)

²⁸ See ASA 240, paragraph 54.

- (a) ...
- (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) ...
73. Existing paragraph A92 is amended to read as follows:
- The discussion provides an opportunity to:
- ...
 - Discuss fraud or suspected fraud that has been identified, or information that indicates existence of a fraud.
 - ...
74. Existing footnote 72 in paragraph A92 is amended to read as follows:
- See ASA 240, paragraph ~~46~~29.
75. Existing paragraph A113 is amended to read as follows:
- In applying ASA 240, the auditor is required to identify and assess the risks of material misstatement of the financial report 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 report due to fraud may include the following:
- ...
 - Group management's process for identifying and responding to the fraud risks ~~of fraud~~ in the group financial report, 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.
 - ...
 - 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 enquiry about whether they have knowledge of any fraud or actual, suspected fraud, including allegations of, or alleged fraud, affecting a component or the group.
76. Existing footnote 79 in paragraph A113 is amended to read as follows:
- See ASA 240, paragraphs ~~26~~39, ~~34~~46.
77. Existing footnote 85 in paragraph A136 is amended to read as follows:
- See ASA 240, paragraph ~~30(e)~~43.
78. Existing paragraph A144 is amended to read as follows:
- 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 identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial report; or
- ...

79. Existing paragraph A160 is amended to read as follows:

ASA 240 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.

80. Existing footnote 91 in paragraph A160 is amended to read as follows:

See ASA 240, paragraphs ~~41–43~~63–65.

81. Existing Appendix 2 is amended to read as follows:

Understanding the Group's System of Internal Control

...

The Group's Risk Assessment Process

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, analysing and managing business risks, including the fraud risk of fraud, that may result in material misstatement of the group financial report. 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.

82. Existing paragraphs in Appendix 2 will be renumbered starting from number 1.

Amendments to ASA 610

83. Existing paragraph A26 is amended to read as follows:

ASA 200 discusses the importance of the auditor planning and performing the audit with professional scepticism, including being alert to information that brings into question the reliability of documents and responses to enquiries 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. 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 report 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 ASA 240.

Amendments to ASA 700

84. Existing paragraph 40 is amended to read as follows:

The Auditor's Responsibilities for the Audit of the Financial Report section of the auditor's report also shall: (Ref: Para. A50)

- (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings that the auditor identifies during the audit, including any:
- (i) ~~Significant deficiencies in internal control that the auditor identifies during the audit;~~
 - (ii) Identified fraud or suspected fraud;¹⁹ and
 - (iii) Other matters related to fraud that are, in the auditor's judgement, relevant to the responsibilities of those charged with governance;²⁰
- (b) ...

Amendments to ASA 700 Appendix 1: [Aus] Illustration 1A, [Aus] Illustration 2A, Illustration 3 and Illustration 4

85. [Aus] Illustration 1A: An auditor's report on a financial report of a single listed company prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• ...

We communicate with the directors 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 judgement, relevant to the responsibilities of the directors.

...

86. [Aus] Illustration 2A: An auditor's report on a financial report of a listed company and its subsidiaries (Group) prepared in accordance with the *Corporations Act 2001* (a fair presentation framework), is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

¹⁹ See ASA 240, paragraph 64.

²⁰ See ASA 240, paragraph 65.

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...

We communicate with the directors 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 judgement, relevant to the responsibilities of the directors.

...

87. Illustration 3: An auditor's report on a financial report of an entity other than a listed entity prepared in accordance with a fair presentation framework, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...

We communicate with those charged with governance, 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 judgement, relevant to the responsibilities of those charged with governance.

...

88. Illustration 4: An auditor's report on a financial report of an entity other than a listed entity prepared in accordance with a general purpose compliance framework, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings that we identify during our audit, including any:

- ~~s~~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 judgement, relevant to the responsibilities of those charged with governance.

...

Amendments to ASA 701

89. The following paragraph and footnote are inserted after existing paragraph A8 of this Auditing Standard:

ASA 240¹⁵ includes requirements for determining and communicating key audit matters related to fraud. The requirements and guidance in ASA 240 refer to, or expand on, the application of this ASA.

90. The following paragraph and footnote are inserted after existing paragraph A18 of this Auditing Standard:

ASA 240²³ notes that matters related to fraud are often matters that require significant auditor attention and that, given the interest of users of the financial reports, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 59 of ASA 240, would ordinarily be of most significance in the audit of the financial reports of the current period and therefore are key audit matters.

91. Existing paragraph A21 is amended to read as follows:

~~However, this may not be the case for all significant risks. For example, ASA 240 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. In addition, ASA 240 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. 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 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.~~

92. Existing footnote 25 is amended to read as follows:

~~See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs 26–2739(b) and 41.~~

93. Existing footnote 26 is amended to read as follows:

¹⁵ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraphs 59–61.

²³ See ASA 240, paragraphs A177 and A183.

See ASA 240, paragraphs ~~34~~39(b) and 40.

94. A new footnote is inserted in paragraph A55 as follows:

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.³⁴ 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.

Amendments to ASA 705

95. Existing paragraph A9 is amended to read as follows:

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.

Amendments to ASA 800

Amendments to ASA 800 Appendix 1: Illustration 1, Illustration 2 and [Aus] Illustration 5

96. Illustration 1: An auditor's report on a financial report 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), is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...

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 judgement, relevant to the responsibilities of those charged with governance.

...

³⁴ For example, except for certain specified circumstances, paragraph R114.2 of the APESB 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 AUST R114.3 of the APESB 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 APESB Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

97. Illustration 2: An auditor's report on a financial report 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), is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...

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 judgement, relevant to the responsibilities of those charged with governance.

...

98. [Aus] Illustration 5: An auditor's report on a financial report prepared by a not-for-profit incorporated association in accordance with the financial reporting provisions of the *applicable legislation* (for purposes of this illustration, a fair presentation framework), is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Auditor's Responsibilities for the Audit of the Financial Report

...

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ...

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 judgement, relevant to the responsibilities of those charged with governance.

...

Commencement of the legislative instrument

For legal purposes, each provision of this instrument specified in column 1 of the table commences, or is taken to have commenced in accordance with column 2 of the table. Any other statement in column 2 has effect according to its terms.

Commencement information		
Column 1	Column 2	Column 3
Provisions	Commencement	Date/Details
The whole of this instrument	14 December 2026.	14 December 2026.

Note: This table relates only to the provisions of this instrument as originally made. It will not be amended to deal with any later amendments of this instrument.

ASA 240
(July 2025)

Explanatory Statement

ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report and AUASB 2025-6 Amendments to Australian Auditing Standards

Issued by the Auditing and Assurance Standards Board



Australian Government
Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board website:
www.auasb.gov.au

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Draft

Explanatory Statement - ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards*

Reasons for Issuing Auditing Standard ASA 240

The AUASB issues Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards* (ASA 240) pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council, the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Auditing Standards ASA 240 and AUASB 2025-6 conform with ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB) and the IAASB's 'Conforming and Consequential Amendments Arising from ISA 240 (Revised 2025)'.

Purpose of Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*

The purpose of ASA 240 is to deal with the auditor's responsibilities relating to fraud in an audit of a financial report and the implications for the auditor's report. ASA 240 replaces the current ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* issued by the AUASB in October 2009 (as amended to 27 April 2022). AUASB 2025-6 *Amendments to Australian Auditing Standards* includes the conforming and consequential amendments to other Auditing Standards as a result of changes made in the revised ASA 240.

Main Features

ASA 240 contains minor changes from the ISA 240 (Revised 2025), which have been made in the Application and Other Explanatory Material and Appendices to reflect Australian regulatory requirements.

Operative Date

ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* is operative for financial reporting periods beginning on or after 15 December 2026.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing ASA 240, by exposing the IAASB's exposure draft of the proposed revised ISA 240 in Australia, along with an associated Australian Explanatory Memorandum. The exposure period was 90 days.

Explanatory Statement - ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards*

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the revised ASA 240.

Impact Analysis

A Preliminary Assessment form has been prepared in connection with the preparation of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards* and lodged with the Office of Impact Analysis (OIA). The OIA advised that an Impact Analysis is not required in relation to these standards.

Commented [DN1]: Has this process been completed?
Should we note this in the covering paper?

Exemption from Sunsetting

Auditing Standards promulgated by the AUASB that are legislative instruments are exempt from the sunset provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. The AUASB's Standards are exempt from sunset because a more stringent review process than sunset applies to the Standards. This review process ensures Australia's Auditing Standards regime remains consistent with international standards. Typically, the AUASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AUASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunset regime would have very limited practical application to AUASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standards ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards***

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 240

The purpose of ASA 240 is to deal with the auditor's responsibilities relating to fraud in an audit of a financial report and the implications for the auditor's report. ASA 240 replaces the current ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* issued by the AUASB in October 2009 (as amended to 27 April 2022). AUASB 2025-6 *Amendments to Australian Auditing Standards* includes the conforming and consequential amendments to other Auditing Standards as a result of changes made in the revised ASA 240.

Main Features

Auditing Standards ASA 240 and AUASB 2025-6 conform with ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (ISA 240 (Revised 2025)) issued by the International Auditing and Assurance Standards Board (IAASB) and the IAASB's 'Conforming and Consequential Amendments Arising from ISA 240 (Revised 2025)'.

ASA 240 contains minor changes from ISA 240 (Revised 2025), which have been made in the Application and Other Explanatory Material and Appendices to reflect Australian regulatory requirements.

Human Rights Implications

These Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

Draft Conforming Amendments to non-legislative AUASB Standards due to ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*

Amendments to non-legislative AUASB standards do not require an amending standard. The standards are revised and replaced.

Where this document inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated. Where this document inserts, deletes or amends a heading or a sub-heading, as a result of that insertion, deletion or amendment, the heading or sub-heading on the Table of Contents are updated.

Reference	Amendments made to IAASB standards	Proposed amendments to AUASB standards
ASA 805 <i>Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>		
Appendix 2 Illustration 1	<p>INDEPENDENT AUDITOR'S REPORT</p> <p>...</p> <p>Auditor's Responsibilities for the Audit of the Financial Statements</p> <p>...</p> <p>We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any that we identify during our audit;</p> <ul style="list-style-type: none"> • §Significant deficiencies in internal control that we identify during our audit; • <u>Identified fraud or suspected fraud;</u> <u>and</u> • <u>Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.</u> <p>...</p>	<p>INDEPENDENT AUDITOR'S REPORT</p> <p>...</p> <p>Auditor's Responsibilities for the Audit of the Financial Report</p> <p>...</p> <p>We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any:</p> <ul style="list-style-type: none"> • §Significant deficiencies in internal control that we identify during our audit; • <u>Identified fraud or suspected fraud; and</u> • <u>Other matters related to fraud that are, in the auditor's judgement, relevant to the responsibilities of those charged with governance.</u> <p>...</p>
Appendix 2 Illustration 2	<p>INDEPENDENT AUDITOR'S REPORT</p> <p>...</p> <p>Auditor's Responsibilities for the Audit of the Financial Statements</p> <p>...</p> <p>We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any that we identify during our audit;</p> <ul style="list-style-type: none"> • §Significant deficiencies in internal control that we identify during our audit; • <u>Identified fraud or suspected fraud;</u> <u>and</u> • <u>Other matters related to fraud that are, in the auditor's judgment, relevant to</u> 	<p>INDEPENDENT AUDITOR'S REPORT</p> <p>...</p> <p>Auditor's Responsibilities for the Audit of the Financial Report</p> <p>...</p> <p>We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any:</p> <ul style="list-style-type: none"> • §Significant deficiencies in internal control that we identify during our audit; • <u>Identified fraud or suspected fraud; and</u> • <u>Other matters related to fraud that are, in the auditor's judgement, relevant to the responsibilities of those charged with governance.</u>

Reference	Amendments made to IAASB standards	Proposed amendments to AUASB standards
	<p><u>the responsibilities of those charged with governance.</u></p> <p>...</p>	...
Appendix 2 [Aus] Illustration 3A	<p>INDEPENDENT AUDITOR'S REPORT</p> <p>...</p> <p>Auditor's Responsibilities for the Audit of the Financial Statements</p> <p>...</p> <p>We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any that we identify during our audit:</p> <ul style="list-style-type: none"> • sSignificant deficiencies in internal control that we identify during our audit; • <u>Identified fraud or suspected fraud; and</u> • <u>Other matters related to fraud that are, in the auditor's judgement, relevant to the responsibilities of those charged with governance.</u> <p>...</p>	<p>INDEPENDENT AUDITOR'S REPORT</p> <p>...</p> <p>Auditor's Responsibilities for the Audit of the Schedule</p> <p>...</p> <p>We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any:</p> <ul style="list-style-type: none"> • sSignificant deficiencies in internal control that we identify during our audit; • <u>Identified fraud or suspected fraud; and</u> • <u>Other matters related to fraud that are, in the auditor's judgement, relevant to the responsibilities of those charged with governance.</u> <p>...</p>
ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity		
Paragraph 48	<p>The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A82–A86)</p> <p>...</p> <p>(d) The existence of any actual, suspected or alleged fraud or suspected fraud, including allegations of fraud,</p> <p>(i) Fraud or illegal acts affecting the entity; and</p> <p>(ii) <u>identified or suspected N</u>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;</p> <p>...</p>	<p>The assurance practitioner's enquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A84–A88)</p> <p>...</p> <p>(d) The existence of any actual, suspected or alleged:</p> <p>(i) Ffraud or <u>suspected fraud, including allegations of fraud</u>illegal acts affecting the entity; and</p> <p>(ii) identified or suspected Nnon-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and superannuation laws and regulations;</p> <p>...</p>

Reference	Amendments made to IAASB standards	Proposed amendments to AUASB standards
Paragraph 62	<p>The practitioner shall also request management's written representations that management has disclosed to the practitioner: (Ref: Para. A105)</p> <p>...</p> <p>(b) Significant facts relating to <u>Its knowledge of any</u> frauds or suspected frauds known to management that may have affected the entity;</p> <p>...</p>	<p>The assurance practitioner shall also request management's written representations that management has disclosed to the assurance practitioner: (Ref: Para. A107)</p> <p>...</p> <p>(b) Significant facts relating to <u>Its knowledge of any</u> frauds or suspected frauds known to management that may have affected the entity;</p> <p>...</p>

July 2025

Basis for Conclusions

ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report and AUASB 2025-6 Amendments to Australian Auditing Standards

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

This Basis for Conclusions is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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ISSN 2201-3628

Basis for Conclusions ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the standards by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 240 or AUASB 2025-6.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report and AUASB 2025-6 Amendments to Australian Auditing Standards

Background

1. In accordance with its mandate under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's Strategic Direction, the AUASB's policy is to adopt the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), unless there is a compelling reason not to do so. In addition, the AUASB is required to make such amendments to the ISAs to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so and are made with a public interest focus.
2. The AUASB has issued ASA 240. ASA 240 is consistent with ISA 240 (Revised 2025), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, issued by the IAASB in July 2025. Refer paragraphs 10-11 of this Basis of Conclusions document for further detail on the compelling reason amendments.
3. In December 2021, the IAASB approved a project proposal that addresses the revision of extant ISA 240 and the conforming and consequential amendments to other relevant ISAs, to enhance or clarify the auditor's responsibilities on fraud in an audit of financial statements. The project objectives that support the public interest included revising extant ISA 240 to:
 - Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements;
 - Promote consistent behaviour and facilitate effective responses to identified risks of material misstatement due to fraud through more robust requirements and enhancing application material where necessary;
 - Reinforce the importance, throughout the audit, of the appropriate exercise of professional scepticism in fraud-related audit procedures; and
 - Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with those charged with governance (TCWG) and the auditor reporting requirements.
4. The IAASB released an exposure draft of proposed revised ISA 240 in February 2024 and within the same month, the AUASB exposed the IAASB exposure draft to gather feedback from Australian stakeholders to inform its submission to the IAASB. Comments letters from stakeholders are available on the AUASB website.
5. The AUASB also sought input by hosting a series of virtual roundtable meetings with stakeholders representing assurance providers from medium and large audit firms, the public sector and the professional accounting bodies across Australia.
6. The comment period closed on 21 May 2024. The AUASB received written comment letters from:
 - [Australasian Council of Auditors General](#)
 - [Pitcher Partners](#)
 - [Deloitte Touche Tohmatsu Australia](#)
 - [KPMG Australia](#)

7. The AUASB considered all submissions received and provided a [written submission to the IAASB](#) in June 2024.
8. The AUASB monitored the development of ISA 240 to ensure that the AUASB's issues raised were appropriately addressed. Further details regarding the development of ISA 240 and how the IAASB addressed feedback on their exposure draft can be found in the **ISA 240 Basis for Conclusions** on the IAASB's website.

Substantive Comments raised by Australian Respondents on Exposure

9. The AUASB received feedback from respondents on the Australian exposure of ISA 240 with the substantive comments included in the submission to the IAASB relating to:
 - (a) Transparency in the auditor's report and by directors; and
 - (b) Application to clearly trivial fraud or suspected fraud.

The Appendix details substantive feedback received from Australian stakeholders and how those matters have been addressed in the final ISA 240.

Compelling reasons assessment

10. The adoption of international standards and any changes to adopted standards are governed by the [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#) (Harmonisation Policy). The policies and procedures incorporate "compelling reasons" tests which must be met to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. Further to paragraph 1 of this Basis of Conclusions document, compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate having regard to the public interest in Australia.
11. The AUASB has made the following compelling reason additions upon adoption of ISA 240 in Australia as ASA 240:
 - (a) For an audit engagement under the *Corporations Act 2001* (the Act), resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain circumstances, obtaining consent to resign from the Australian Securities and Investments Commission (ASIC).
 - (b) Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a person regarding contraventions or possible contraventions of the law. In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or TCWG in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement.
 - (c) An auditor is required by the Act to notify ASIC if the auditor is aware of certain circumstances.

Conclusion

12. The AUASB voted to approve and issue ASA 240 and AUASB 2025-6 on 9 July 2025.
13. In reaching its conclusions the AUASB considered:
 - (a) all stakeholder feedback;

- (b) the IAASB's due process and consideration as to whether ISA 240 should be re-exposed; and
- (c) whether the amendments made to ISA 240 by the IAASB since exposure were in response to submissions from stakeholders on the exposure draft, have not changed the fundamental approach and principles on which the standard is based, and did not require the re-expose of the standard.

* * *

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Appendix

How the substantive comments raised in the AUASB submission to the IAASB have been addressed in the final ISA 240

No.	Substantive comments in the AUASB submission	How addressed in the revised ISA 240 or why not an impediment to Australian standard
1	Transparency in reporting	
1.1	Replacing the heading 'Key Audit Matters Including Matters Related to Fraud' in the audit report with 'Key Audit Matters (Including Matters Related to Fraud and Error)' for consistency with the text that appears immediately after the heading. This will avoid over-emphasising the importance of fraud risk compared to risk of error.	<p><i>This matter has been addressed in revised ISA 240.</i></p> <p>The IAASB has removed the words "Including Matters Related to Fraud" in the section heading. There is a requirement in paragraph 61 is to use an appropriate subheading for each KAM that clearly describes that the matter relates to fraud sufficiently emphasises the KAMs related to fraud. Application material supports this requirement, refer 1.2 below.</p>
1.2	Including appropriate examples in the application material demonstrating that fraud related KAMs are often interlinked with KAMs related to error (e.g. a KAM related to an estimate). Otherwise, KAM related fraud risks may always be treated as stand-alone KAMs, which may drive boilerplate statements.	<p><i>This matter has been partially addressed by the IAASB. While the IAASB has not addressed the AUASB's encouragement for additional guidance, the AUASB's concern with the requirements themselves has been addressed.</i></p> <p>Combined with the change to the heading, AM paragraph A185 further explains:</p> <p><i>If a matter related to fraud is determined to be a key audit matter and there are a number of separate, but related, considerations that were of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes the matter, including that it relates to fraud.</i></p>
1.3	Some practitioners were concerned with possible litigation where a material fraud is later discovered but there was no KAM in the auditor's report. Additionally, a fraud matter may still be under investigation at the time of the audit report and communicating the matter in a KAM could create legal risk for both the company and the auditor.	<p><i>This matter has been addressed in revised ISA 240.</i></p> <p>The IAASB acknowledged respondents' comments and that the concern with respect to suspected fraud, on-going investigations and uncertain outcomes, as well as disclosing original information, and believes it is covered by ISA 701 paragraph 14(b) (which does not require a key audit matter to be disclosed in the rare circumstances where the consequence of disclosure outweighs the public interest benefits) and related application material.</p> <p>Paragraph A189 addresses cases where a KAM is not communicated in the auditor's report and includes a reference to ISA paragraph 14(b) of 701. Furthermore, application material paragraph A189 highlights that ISA 701 includes considerations and guidance on original information that may be particularly relevant in the context of communicating KAMs related to fraud.</p>

Basis for Conclusions ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards*

No.	Substantive comments in the AUASB submission	How addressed in the revised ISA 240 or why not an impediment to Australian standard
1.4	<p>Australian practitioners expressed concern that some auditors could include boilerplate fraud related KAMs (e.g. on management override of controls) to avoid stating that there are no KAMs related to fraud to communicate.</p> <p>The AUASB suggested that where there are no KAMs related to fraud, highlighting in the auditor's report that the auditor's objective is to obtain reasonable assurance that the financial report as a whole is free of material misstatement, whether due to fraud or error.</p>	<p><i>This matter has been addressed in revised ISA 240.</i></p> <p>The IAASB has deleted the requirement to disclose when there are no KAMs related to fraud.</p>
2	Work Effort Requirements	
2.1	<p>The AUASB submission raised concerns with the proposed work effort in ED 240 where clearly trivial fraud has been identified. Instead, there could be a stand-back provision to address the possibility of an accumulation of matters that alone might be considered clearly trivial.</p>	<p><i>This matter has been partially addressed by the IAASB. The Office of the AUASB accepts the position that the stand-back will be looked at holistically within the Audit Evidence and Risk Response project currently underway.</i></p> <p>A 'clearly inconsequential' exception threshold has been added to paragraphs 55.</p> <p>The IAASB reaffirmed its position that a separate stand-back requirement is not needed given existing stand-back requirements in other ISA to consider, among other things, whether the audit evidence obtained adequately supports the auditor's risk identification and assessment and responds to assessed risks. An integrated and coherent approach to stand-back requirements across the suite of ISAs will be considered in the Audit Evidence and Risk Response project.</p>
2.2	<p>Making the requirement in paragraph 55(a) (now paragraph 54(a)) to inquire about the matter with a level of management that is at least one level above those involved, subject to any legislation that may prevent the auditor from making a direct enquiry to management, such as where the auditor is notified of a fraud or suspected fraud by an anti-corruption regulator. Indirect enquiry may be possible.</p>	<p><i>This matter has been addressed by the IAASB</i></p> <p>The IAASB has addressed this by inserting the words 'when appropriate in the circumstances' to paragraph 54(a). The IAASB considers that the determination of which level of management is appropriate is a matter of professional judgement.</p>
2.3	<p>The assessment in paragraph 56 (now paragraph 55) should be imposed on the auditor rather than the engagement partner. In practice it may be made by the engagement partner but that may not be practical in some scenarios,</p>	<p><i>This matter has partially been addressed by the IAASB. The Office of the AUASB accepts the position of the IAASB in relation to the engagement partner's responsibilities</i></p> <p>The IAASB has deliberated this matter but continues to believe that these determinations should be made by the engagement partner (other than for matters that are clearly inconsequential) due to the importance of appropriately</p>

No.	Substantive comments in the AUASB submission	How addressed in the revised ISA 240 or why not an impediment to Australian standard
	such as large groups with component audits.	<p>assessing the impact of fraud or suspected fraud on the audit. The IAASB considers that this requirement is scalable and proportional and that it is appropriate for the engagement partner to use information obtained by other members of the engagement team, including component auditors in the case of a group audit, to make these determinations.</p> <p>The IAASB have included new application material paragraph at A162 reminding practitioners that in fulfilling this requirement, the engagement partner (as described in ISA 220) may obtain information from other members of the engagement team (e.g. component auditors).</p>

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