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Description of content of ISSAI 1240

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

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1240 is comprised of International Standard on Auditing (ISA) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, and a corresponding Practice Note. The ISA and the Practice Note are read together.

Authority

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

Description of the ISA

ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how ISA 315¹ and ISA 330² are to be applied in relation to risks of material misstatement due to fraud.

Objective of the auditor in terms of the ISA

The objectives of the auditor are:

- a. To identify and assess the risks of material misstatement of the financial statements due to fraud;
- b. To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- c. To respond appropriately to fraud or suspected fraud identified during the audit.

¹ ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.

² ISA 330, The Auditor's Responses to Assessed Risks.

Among other matters, the requirements in this ISA deal with:

- a. The need to maintain professional skepticism throughout the audit, recognizing that the possibility that a material misstatement due to fraud could exist.
- b. The need to place particular emphasis in the initial discussion among the engagement team on how and where the financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur.
- c. Specific risk assessment procedures and related activities to obtain information for use in identifying the risks of material misstatement due to fraud.
- d. The need to evaluate which types of revenue, revenue transactions or assertions give rise to risks of fraud in revenue recognition.
- e. The need to treat assessed risks of material misstatement due to fraud as significant risks.
- f. Responses to assessed risks of material misstatement due to fraud.
- g. Evaluation of audit evidence – whether analytical procedures performed near the end of the audit or identified misstatements could indicate a previously unrecognised risk of material misstatement due to fraud.
- h. The situation where, as a result of 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.
- i. Written representations.
- j. Communications to management and those charged with governance.
- k. Communications to regulatory and enforcement authorities.
- l. Documentation.

Description of the Practice Note

The Practice Notes provide supplementary guidance for auditors applying ISA 240 when conducting financial audits of public sector entities.

Content of the Practice Note

The Practice Note provides additional guidance for public sector auditors related to:

- a. Overall considerations in relation additional audit and reporting objectives or public expectations concerning fraud risks when planning and performing the audit, and characteristics of fraud in the public sector.
- b. Definition of abuse.
- c. Professional skepticism.
- d. Discussions among the engagement team.
- e. Risk assessment procedures and related activities.

- f. Identification and assessment of the risks of material misstatement due to fraud.
- g. Responses to the assessed risks of material misstatement due to fraud.
- h. Evaluation of audit evidence.
- i. Auditor unable to continue the engagement.
- j. Communication to management and with those charged with governance.
- k. Communications to regulatory and enforcement authorities.