2026

International Standard on Auditing (Ireland) 240

Revised September 2026

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

IAASA
Irish Auditing & Accounting Supervisory Authority

Disclaimer

The Irish Auditing and Accounting Supervisory Authority accepts no liability for any loss or consequences arising from reliance on this document. While every effort has been made to ensure accuracy, no responsibility is accepted for errors, inaccuracies or omissions howsoever arising.

INTERNATIONAL STANDARD ON AUDITING (IRELAND) 240 (SEPTEMBER 2026)

THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods beginning on or after December 15, 2026)

CONTENTS

International Standard on Auditing (Ireland) (ISA (Ireland)) 240 (Revised September 2026), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, should be read in conjunction with ISA (Ireland) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (Ireland)*.

Introduction

Scope of this ISA (Ireland)

1. This International Standard on Auditing (Ireland) (ISA (Ireland)) deals with the auditor's responsibilities relating to fraud in an audit of financial statements and the implications for the auditor's report. The requirements and guidance in this ISA (Ireland) refer to, or expand on, the application of other relevant ISAs (Ireland), in particular ISA (Ireland) 200,[1] ISA (Ireland) 220,[2] ISA (Ireland) 315,[3] ISA (Ireland) 330,[4] and ISA (Ireland) 701.[5] Accordingly, this ISA (Ireland) is intended to be applied in conjunction with other relevant ISAs (Ireland).

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 ISA (Ireland), and other relevant ISAs (Ireland), are to: (Ref: Para. A1)

   (a) Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. These responsibilities include identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address those assessed risks.

   (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 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 that can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings in order to influence the perceptions of financial statement users regarding the entity's performance.

---

1 ISA (Ireland) 200 (Revised May 2026), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

2 ISA (Ireland) 220 (Revised May 2026), *Quality Management for an Audit of Financial Statements*

3 ISA (Ireland) 315 (Revised May 2026), *Identifying and Assessing the Risks of Material Misstatement*

4 ISA (Ireland) 330 (Updated October 2022), *The Auditor's Responses to Assessed Risks*

5 ISA (Ireland) 701 (Revised May 2026), *Communicating Key Audit Matters in the Independent Auditor's Report*

Key Concepts in this ISA (Ireland)

Characteristics of Fraud

4. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

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 ISAs (Ireland), the auditor is concerned with a material misstatement of the financial statements due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ISA (Ireland), 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 ISAs (Ireland). Suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit. (Ref: Para. A7–A10 and A28)

8. The auditor's determination of whether a fraud or suspected fraud is material to the financial statements involves the exercise of professional judgment. For identified misstatement(s) due to fraud, this includes consideration of the nature of the circumstances giving rise to the fraud. Judgments about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)

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 as a whole are 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 may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (Ireland).[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 position to directly or indirectly manipulate accounting records, present

---

6 ISA (Ireland) 200 (Revised May 2026), paragraph 5

7 ISA (Ireland) 200 (Revised May 2026), paragraphs A56–A57

8 ISA (Ireland) 200 (Revised May 2026), paragraph A57

fraudulent financial information, or override controls designed to prevent similar frauds by other employees.

Professional Skepticism and Professional Judgment

12. In accordance with ISA (Ireland) 200 (Revised May 2026),[9] the auditor is required to plan and perform the audit with professional skepticism and to exercise professional judgment. The auditor is required by this ISA (Ireland) to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit, considering the potential for management override of controls, and recognizing that audit procedures that are effective for detecting error may not be effective in detecting fraud.

13. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. (Ref: Para. A13–A14)

Non-Compliance with Laws and Regulations

14. For the purposes of this and other relevant ISAs (Ireland), 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 (Ireland) 250 A and ISA (Ireland) 250 B.[10] (Ref: Para. A15–A17)

Relationship with Other ISAs (Ireland)

15. Some ISAs (Ireland) 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 ISAs (Ireland) expand on how this ISA (Ireland) is applied. (Ref: Para. A18)

Effective Date

16. This ISA (Ireland) is effective for audits of financial statements for periods beginning on or after December 15, 2026. Early adoption is permitted.

Objectives

17. The objectives of the auditor are:

    (a) To identify and assess the risks of material misstatement of the financial statements due to fraud;

---

9 ISA (Ireland) 200 (Revised May 2026), paragraphs 15–16

10 ISA (Ireland) 250, *Section A- Consideration of Laws and Regulations in an Audit of Financial Statements and ISA (Ireland) 250 Section B—The Auditor's Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector*

(b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses;

(c) To respond appropriately to fraud or suspected fraud identified during the audit; and

(d) To report in accordance with this ISA (Ireland).

Definitions

18. For purposes of the ISAs (Ireland), 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. A19–A23)

(b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, or an attitude or rationalization that justifies the fraudulent action. (Ref: Para. A24–A26)

Requirements

Professional Skepticism

19. In applying ISA (Ireland) 200 (Revised May 2026),[11] the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. (Ref: Para. A27)

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. A28–A32)

21. Where responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity are inconsistent, the auditor shall investigate the inconsistencies. (Ref: Para. A33)

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. A34–A37)

Engagement Resources

23. In applying ISA (Ireland) 220 (Revised May 2026),[12] the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time and appropriate specialized skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained. (Ref: Para. A38–A42)

Engagement Performance

24. In applying ISA (Ireland) 220 (Revised May 2026),[13] the engagement partner shall

---

11 ISA (Ireland) 200 (Revised May 2026), paragraph 15

12 ISA (Ireland) 220 (Revised May 2026), paragraphs 25–28

13 ISA (Ireland) 220 (Revised May 2026), paragraph 30(b)

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. A43)

(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[13a]. (Ref: Para. A44–A48, A195-1)

Risk Assessment Procedures and Related Activities

26. In applying ISA (Ireland) 315 (Revised May 2026),[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. A49)

Information from Other Sources

27. In applying ISA (Ireland) 315 (Revised May 2026),[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. A50–A51)

Retrospective Review of the Outcome of Previous Accounting Estimates

28. In applying ISA (Ireland) 540 (Updated October 2023),[16] the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. (Ref: Para. A52)

Engagement Team Discussion

29. In applying ISA (Ireland) 315 (Revised May 2026),[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 may be susceptible to material misstatement due to fraud, including how fraud may

---

[13a] In Ireland, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance, e.g. for compliance with legislation relating to "tipping off".

[14] ISA (Ireland) 315 (Revised May 2026), paragraphs 13–27

[15] ISA (Ireland) 315 (Revised May 2026), paragraphs 15–16

[16] ISA (Ireland) 540 (Updated October 2023), *Auditing Accounting Estimates and Related Disclosures*, paragraph 14

[17] ISA (Ireland) 315 (Revised May 2026), paragraphs 17 and A42–A43

occur. In doing so, the engagement team discussion shall include: (Ref: Para. A43, A53–A54 and A59)

(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. A55)

(ii) Fraud risk factors, including: (Ref: Para. A56–A57)

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. A58)

(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. A60)

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 (Ireland) 315 (Revised May 2026),[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. A61–A70)

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

Control Environment

32. In applying ISA (Ireland) 315 (Revised May 2026),[19] the auditor shall:

---

[18] ISA (Ireland) 315 (Revised May 2026), paragraph 19

[19] ISA (Ireland) 315 (Revised May 2026), paragraph 21

(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 with respect to the prevention and detection of fraud. (Ref: Para. A71–A72)

(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. A73–A75)

(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. A76–A79)

(b) Make inquiries of management regarding management's communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.

(c) Make inquiries of those charged with governance about: (Ref: Para. A80–A82)

(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 may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; and

(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.

32-1. When obtaining an understanding and making inquiries of those charged with governance in accordance with paragraph 32(a)(iii), the auditor shall discuss with those charged with governance the risks of fraud in the entity, including those that are specific to the entity's business sector.

The Entity's Risk Assessment Process

33. In applying ISA (Ireland) 315 (Revised May 2026),[20] the auditor shall:

(a) Obtain an understanding of how the entity's risk assessment process: (Ref: Para. A83–A91, A107)

(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

[20] ISA (Ireland) 315 (Revised May 2026), paragraph 22

(iii) Addresses the assessed fraud risks.

(b) Make inquiries of management and of other appropriate individuals within the entity about: (Ref: Para. A92–A95)

(i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and

(ii) Their views about whether and how the financial statements may be materially misstated due to fraud.

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

34. In applying ISA (Ireland) 315 (Revised May 2026),[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. A96)

(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 of appropriate individuals within the internal audit function about whether: (Ref: Para. A97–A98)

(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.

The Information System and Communication

35. In applying ISA (Ireland) 315 (Revised May 2026),[22] the auditor's understanding of the entity's information system and communication relevant to the preparation of the financial statements shall include understanding how journal entries and other adjustments are initiated, processed, recorded, and corrected as necessary. (Ref: Para. A99–A101)

Control Activities

36. In applying ISA (Ireland) 315 (Revised May 2026),[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. A102–A107)

---

21 ISA (Ireland) 315 (Revised May 2026), paragraph 24

22 ISA (Ireland) 315 (Revised May 2026), paragraph 25

23 ISA (Ireland) 315 (Revised May 2026), paragraph 26

Control Deficiencies Within the Entity's System of Internal Control

37. In applying ISA (Ireland) 315 (Revised May 2026),[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. A108–A109)

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. A24–A26 and A110–A112)

Identifying and Assessing the Risks of Material Misstatement Due to Fraud

39. In applying ISA (Ireland) 315 (Revised May 2026),[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 level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A113–A114, A116)

    (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. A115)

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. A117–A118)

    (a) Treat the risks of management override of controls as risks of material misstatement due to fraud at the financial statement level; and

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

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. A119–A125)

Responses to the Assessed Risks of Material Misstatement Due to Fraud

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

---

[24] ISA (Ireland) 315 (Revised May 2026), paragraph 27

[25] ISA (Ireland) 315 (Revised May 2026), paragraphs 28–34

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. A126–A127)

Overall Responses

44. In accordance with ISA (Ireland) 330 (Updated October 2022),[26] the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A128)

45. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to 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 (Ireland) 330 (Updated October 2022),[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. A129–A135)

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. (Ref: Para. A136–A139)

49. In designing and performing audit procedures in accordance with paragraph 48, the auditor shall: (Ref: Para. A99)

    (a) Make inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;

---

26 ISA (Ireland) 330 (Updated October 2022), paragraph 5

27 ISA (Ireland) 330 (Updated October 2022), paragraph 6

(b) Obtain audit evidence about the completeness of the population of journal entries and other adjustments made throughout the period; (Ref: Para. A140 and A147)

(c) Select journal entries and other adjustments made at the end of a reporting period and post-closing entries; and (Ref: Para. A141–A143, A144 and A146–A147)

(d) Determine the need to test journal entries and other adjustments made throughout the period. (Ref: Para. A142–A143 and A145–A146)

Accounting Estimates

50. In applying ISA (Ireland) 540 (Updated October 2023),[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. A148–A150)

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 the accounting estimates taken as a whole. (Ref: Para. A150–A152)

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. A153)

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

53. In applying ISA (Ireland) 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 are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A154–A155)

Overall Evaluation Based on Audit Procedures Performed

54. In applying ISA (Ireland) 330 (Updated October 2022),[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 ISA (Ireland) 540 (Updated October 2023), paragraph 32-32D-1

29 ISA (Ireland) 520, *Analytical Procedures*, paragraph 6

30 ISA (Ireland) 330 (Updated October 2022), paragraphs 25–26, A60–A62

(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, A28 and A156–A172)

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. A158–A162)

(a) Make inquiries about the matter(s) with the appropriate level of management and, when appropriate in the circumstances, make inquiries about the matter(s) with those charged with governance;

(b) If the entity has a process to investigate the matter(s), evaluate whether it is appropriate in the circumstances; and

(c) If the entity has implemented remedial actions to respond to the matter(s), evaluate whether they are appropriate in the circumstances.

56. Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential based on the procedures performed in paragraph 55, the engagement partner shall: (Ref: Para. A163–A165)

(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 (Ireland) 315 (Revised May 2026);

(ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ISA (Ireland) 330 (Updated October 2022); 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 (Ireland) 250 A and ISA (Ireland) 250 B.

(b) If applicable, consider the impact on prior period audits.

56R-1. For audits of financial statements of public interest entities, when an auditor suspects or has reasonable grounds to suspect that irregularities, including fraud with regard to the financial statements of the entity, may occur or have occurred, the auditor shall, unless prohibited by law or regulation, inform the entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities and to prevent any recurrence of such irregularities in the future. (Ref: Para. A195-1, A200-1)

57. If the auditor identifies a misstatement due to fraud, the auditor shall: (Ref: Para. A166–A172)

(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 are materially misstated due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the financial statements are materially misstated due to fraud, the auditor shall:

(a) Determine the implications for the audit and the auditor's opinion on the financial statements in accordance with ISA (Ireland) 705 (Revised May 2026);[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. A173–A176)

(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.

Auditor's Report

Determining Key Audit Matters Related to Fraud

---

[31] ISA (Ireland) 705 (Revised May 2026), *Modifications to the Opinion in the Independent Auditor's Report*

60. In applying ISA (Ireland) 701 (Revised May 2026),[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. A177–A183)

    (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 (Ireland) 701 (Revised May 2026),[33] the auditor shall determine which of the matters determined in accordance with paragraph 60 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A184–A186)

Communicating Key Audit Matters Related to Fraud

62. In applying ISA (Ireland) 701 (Revised May 2026),[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. A187–A192)

Written Representations

63. The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (Ref: Para. A193–A194)

    (a) They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud and have appropriately fulfilled those responsibilities;

    (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;

    (c) They have disclosed to the auditor their knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity involving:

        (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; and

    (d) They have disclosed to the auditor their knowledge of suspected fraud, including allegations of fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.

---

32 ISA (Ireland) 701 (Revised May 2026), paragraph 9

33 ISA (Ireland) 701 (Revised May 2026), paragraph 10

34 ISA (Ireland) 701 (Revised May 2026), paragraph 11

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. A195–A196)

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. A195 and A197–A199)

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, relevant to the responsibilities of those charged with governance. (Ref: Para. A195 and A200)

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. A201–A205)

    (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.

67R-1. For audits of financial statements of public interest entities, where the entity does not investigate the matter referred to in paragraph 56R-1, the auditor shall inform the authorities responsible for investigating such irregularities. (Ref: Para. A205-1–A205-2)

Documentation

68. In applying ISA (Ireland) 230 (Updated October 2024),[35] the auditor shall include the following in the audit documentation: (Ref: Para. A206)

    (a) The matters discussed among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud in accordance with paragraph 29.

---

[35] ISA (Ireland) 230 (Updated October 2024), *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix

(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 level and at the assertion level, and the rationale for the significant judgments 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 judgments made, and the conclusions reached.

(f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments 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.

***

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 but may also include a broader responsibility to consider risks of fraud.

Key Concepts in this ISA (Ireland)

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 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 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, to deceive financial statement users. It can be caused by the efforts of management to manage earnings to deceive financial statement 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 judgments 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 due to pressures to meet market expectations or a desire to maximize compensation based on performance.

- Management reduces earnings by a material amount to minimize 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 are prepared.
- Misrepresentation in, or intentional omission from, the financial statements 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 judgments used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial statements 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.
- 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.

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, 8 and 55–58)

A7. Audit evidence obtained when performing risk assessment procedures and further audit procedures in accordance with this ISA (Ireland) 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 ISAs (Ireland) may also bring instances of fraud or suspected fraud to the auditor's attention including, for example, those performed in accordance with ISA (Ireland) 600 (Revised May 2026)[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

[36] ISA (Ireland) 600 (Revised May 2026), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 38(d)

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 ISA (Ireland), 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. Accordingly, the auditor performs audit procedures in accordance with paragraphs 55–58 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 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 organized 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 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 such as accounting estimates are caused by fraud or error.

Professional Skepticism and Professional Judgment (Ref: Para. 13)

A13. ISQM (Ireland) 1[37] requires the firm to design, implement and operate a system of quality management for audits of financial statements. The firm's commitment to an effective system of quality management underpins the requirement for the auditor to exercise professional skepticism when performing the audit engagement. This commitment is recognized 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.

(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 specialized knowledge and skills that may be needed when performing audit procedures related to fraud in an audit of financial statements.

A14. ISQM (Ireland) 1[38] also explains that the quality of professional judgments exercised by the firm is likely to be enhanced when individuals making such judgments demonstrate an attitude that includes an 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 A22) may also give rise to additional responsibilities for the auditor in accordance with ISA (Ireland) 250 A and ISA (Ireland) 250 B.

Example:

- When obtaining an understanding of the entity's general IT controls, the auditor was informed of a cybersecurity breach involving unauthorized 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.

[37] International Standard on Quality Management (Ireland) (ISQM (Ireland)) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

[38] ISQM (Ireland) 1, paragraph A31

A16. Complying with the requirements of this ISA (Ireland) may also fulfill certain applicable requirements in ISA (Ireland) 250 A and ISA (Ireland) 250 B.

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 55, the auditor concluded the understanding was also sufficient to meet the requirement in paragraph 19(a) of ISA (Ireland) 250 Section A (Updated October 2024). The auditor evaluated the possible effect on the financial statements of the fine for the entity's suspected violation of banking regulations regarding related-party lending in accordance with paragraph 19(b) of ISA (Ireland) 250 Section A (Updated October 2024).

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

A17-1. In Ireland, auditors are subject to ethical requirements from two sources: the Ethical Standard for Auditors (Ireland) concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by the auditor's relevant professional body.

A17-2. The objectives of the auditor under ISA (Ireland) 250 Section A (Updated October 2024) include to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.[39a] That standard establishes requirements for responding to such identified or suspected non-compliance, including determining whether law, regulation or relevant ethical requirements require the auditor to report to an appropriate authority outside the entity,[39b] ISA (Ireland) 250 Section B (Revised November 2020) addresses the auditor's statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector. It identifies that speed of reporting is essential where the circumstances cause the auditor no longer to have confidence in the integrity of those charged with governance, for example where the auditor believes that a fraud or other irregularity may have been committed by, or with the knowledge of, those charged with governance, or have evidence of the intention of those charged with governance to commit or condone a suspected fraud or other irregularity.[39c]

---

[39] IESBA Code, Section 360

[39a] ISA (Ireland) 250 (Updated October 2024), *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 11(c).

[39b] ISA (Ireland) 250 (Updated October 2024), *Section A*, paragraph 29(a).

[39c] ISA (Ireland) 250 (Revised November 2020), *Section B—The Auditors Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector*, paragraph A34.

Relationship with Other ISAs (Ireland) (Ref: Para. 15)

A18. **Appendix 5** identifies other ISAs (Ireland) 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 financial statements in accordance with ISA (Ireland) 250 A (Updated October 2024) and ISA (Ireland) 250 B (Revised November 2020).[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 55–58.

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

---

[40] ISA (Ireland) 250 (Updated October 2024), *Section A—Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraphs 6 and A6

- 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 (Ireland) 550.[41]
- 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 unauthorized 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 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 rationalization that justifies the fraudulent action.

Fraud risk factors reflective of an attitude that permits rationalization 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.

---

41 ISA (Ireland) 550, *Related Parties*

42 ISA (Ireland) 315 (Revised May 2026), paragraph 21

Professional Skepticism (Ref: Para. 7, 19–22 and 55–58)

A27. Maintaining professional skepticism 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 skepticism 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 ISA (Ireland) 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 (Ireland) 220 (Revised May 2026),[43] conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Paragraphs A35–A37 of ISA (Ireland) 220 (Revised May 2026) list examples of impediments to the exercise of professional skepticism at the engagement level, unconscious or conscious biases that may affect the engagement team's professional judgments, and actions that may

[43] ISA (Ireland) 220 (Revised May 2026), paragraph A34

be taken to mitigate impediments to the exercise of professional skepticism.

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 judgment, 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 judgment, 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. ISA (Ireland) 220 (Revised May 2026)[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 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

---

44 ISA (Ireland) 220 (Revised May 2026), paragraph A45

45 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.

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 (Ireland) 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 authorized to do so, and the information has not been inappropriately altered.

A35. Audit procedures performed in accordance with ISA (Ireland) 500, this or other ISAs (Ireland), 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 authorized signatory.
- Electronic documents with a last edited date that is after the date they were represented as finalized.

[46] ISA (Ireland) 500, *Audit Evidence*, paragraph 7

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 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 55–58.

Engagement Resources (Ref: Para. 23)

A38. ISA (Ireland) 220 (Revised May 2026)[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 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 specialized 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 (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 statement impact.
- The complexity of the entity's organizational 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

[47] ISA (Ireland) 220 (Revised May 2026), paragraph A77

or business units within complex organizations, 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 in fraud schemes in specific emerging markets may assist in identifying fraud risk factors or where the financial statements 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 statements, 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 specialized 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, analyzing, 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.
- Analyzing 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 specialized 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 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 inquiries 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 ISA (Ireland) 701 (Revised May 2026) 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 ISA (Ireland) 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. ISA (Ireland) 220 (Revised May 2026)[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 ISA (Ireland). 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. ISA (Ireland) 220 (Revised May 2026)[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.

---

48 ISA (Ireland) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

49 ISA (Ireland) 220 (Revised May 2026), paragraphs 25–34

50 ISA (Ireland) 220 (Revised May 2026), paragraph 17

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

A49. As explained in ISA (Ireland) 315 (Revised May 2026),[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 analyzing 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 ISA (Ireland) 315 (Revised May 2026) 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 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 (Ireland) 510 (Revised May 2026),[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 judgments and assumptions related to accounting estimates reflected in the financial statements 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 judgments 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 (Ireland) 220 (Revised May 2026),[53] the engagement partner is responsible for creating an environment that emphasizes 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

---

51 ISA (Ireland) 315 (Revised May 2026), paragraph A48

52 ISA (Ireland) 510 (Revised May 2026), *Initial Audit Engagements—Opening Balances*

53 ISA (Ireland) 220 (Revised May 2026), paragraph 14

manner based on their skills, knowledge and experience about how and where the financial statements may be susceptible to material misstatement due to fraud.

A54. Individuals who have specialized 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 to material misstatement due to fraud. The involvement and contributions of individuals with specialized 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 behaviors of management and those charged with governance, including whether there are clear and consistent actions and communications about integrity and ethical behavior 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 rationalization 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 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 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 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 (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 organizational 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 (Ireland) 315 (Revised May 2026)[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 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 Organizational Structure and Ownership, Governance, Objectives and Strategy, and Geographic Dispersion

A61. Understanding the entity's organizational structure and ownership assists the auditor in identifying fraud risk factors. An overly complex organizational structure involving unusual legal entities or unnecessarily complex or unusual organizational structures

[54] ISA (Ireland) 315 (Revised May 2026), paragraph 14(b)

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 A71–A82). 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 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 centers 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 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. 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 rationalizations 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 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 judgments, 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.

Examples:

- Management may consistently trend toward one end of a range of possible outcomes that provide a more favorable 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 regard to the prevention and detection of fraud.

A72. In considering the extent to which management demonstrates a commitment to ethical behavior, the auditor may obtain an understanding through inquiries 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 behaviors.
- 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 formalized 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.
- Perform additional procedures related to allegations of fraud that are under investigation by the entity in accordance with the requirements in paragraphs 55–58.

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

---

[55] ISA (Ireland) 260 (Revised May 2026), *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.

by attending meetings where such discussions take place, reading the minutes from such meetings, or making inquiries 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 of those charged with governance (Ref: Para. 32(c))

A80. The auditor may also inquire 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 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 may include management judgment 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 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 inquiries 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 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 formalized 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 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. Accordingly, it is appropriate for the auditor to make inquiries 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 of management may provide useful information concerning the risks of material misstatements resulting from employee fraud. However, such inquiries are unlikely to provide useful information regarding the risks of material misstatement resulting from management fraud. Inquiries of others within the entity may provide additional insight into fraud prevention controls, tone at the top, and culture of the organization. The responses from these inquiries 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 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.

[56] ISA (Ireland) 315 (Revised May 2026), paragraph 23

- 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 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 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 (Ireland) 315 (Revised May 2026) and ISA (Ireland) 610 (Updated October 2024) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.[57]

[57] ISA (Ireland) 315 (Revised May 2026), paragraphs 14(a) and 24(a)(ii), and ISA (Ireland) 610 (Updated October 2024), *Using the Work of Internal Auditors*

Examples:

In applying ISA (Ireland) 315 (Revised May 2026) and ISA (Ireland) 610 (Updated October 2024) in the context of fraud, the auditor may, for example, inquire 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 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 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 specialized skills and knowledge, such as forensic and IT experts, or more experienced individuals to the engagement.

Control Activities (Ref: Para. 33 and 36)

A102. Management may make judgments 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 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, authorizations, and other instructions.
- Access controls, including those that address physical security of assets against unauthorized access, acquisition, use or disposal and those that prevent unauthorized 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 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 (Ireland) 315 (Revised May 2026)[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 (Ireland) 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.

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 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 specialized 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

[58] ISA (Ireland) 315 (Revised May 2026), paragraphs 26(a)(ii) and 26(d)

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 (Ireland) 330 (Updated October 2022).

A109. Paragraph 60(c) of this ISA (Ireland) and ISA (Ireland) 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.

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 emphasizes the importance of integrity and ethical behavior 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 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.

[59] ISA (Ireland) 265, paragraph 8

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 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 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 judgments 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 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 publicly traded 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 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. The significance of fraud risk factors (see paragraphs A110–A112) 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. The auditor also determined that 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 68(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. 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 (Ireland) 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 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 (Ireland) 330 (Updated October 2022) 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 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 (Ireland) 330 (Updated October 2022),[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, 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 (Ireland) 505 (Revised March 2024)[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

60 ISA (Ireland) 330 (Updated October 2022), paragraph 19

61 ISA (Ireland) 505 (Revised March 2024), *External Confirmations*, paragraphs 7–8

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 (Ireland) 505 (Revised March 2024)[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.
- 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.

A134. ISA (Ireland) 505 (Revised March 2024)[63] 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, did not exist. Upon investigating the exception, the auditor determined that the entity misstated its financial statements 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

---

62 ISA (Ireland) 505 (Revised March 2024), paragraph A11

63 ISA (Ireland) 505 (Revised March 2024) paragraphs 14 and A21–A22

A136. Material misstatements of financial statements due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorized 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 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 such as eliminating adjustments for transactions, unrealized 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 entries[64] 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.

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. 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 (Ireland) 315 (Revised May 2026).[66]

---

64 ISA (Ireland) 315 (Revised May 2026), paragraph 26(a)(ii)

65 ISA (Ireland) 300 (Updated October 2024), *Planning an Audit of Financial Statements*, paragraphs 5, 9 and 12

66 ISA (Ireland) 315 (Revised May 2026), paragraphs 25–26

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 (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 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.

> **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 requires management to make a number of judgments 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 users by influencing their perceptions as to the entity's performance and profitability.

A149. ISA (Ireland) 315 (Revised May 2026) 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 (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 (Ireland) 540 (Updated October 2023)[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 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.

---

67 ISA (Ireland) 315 (Revised May 2026), paragraph 2 of Appendix 2

68 ISA (Ireland) 540 (Updated October 2023), paragraphs 32-32D-1 and A133–A136

Examples:

- Analyzing 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 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 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. ISA (Ireland) 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.[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 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 are 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 risk of material misstatement due to fraud.

Fraud or Suspected Fraud (Ref: Para. 55–58)

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 (Ireland) 220 (Revised May 2026),[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 ISA (Ireland) 520, paragraphs A17–A19

70 ISA (Ireland) 220 (Revised May 2026), 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 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 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 55(b) and 55(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 (Ireland) 220 (Revised May 2026),[72] in fulfilling the requirement in paragraph 56, 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 (Ireland) 705 (Revised May 2026) deals with the implications for the auditor's opinion on the financial statements.

---

71 ISA (Ireland) 300 (Updated October 2024), paragraphs 10 and A15

72 ISA (Ireland) 220 (Revised May 2026), paragraph 9

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.

The Auditor Identifies a Misstatement Due to Fraud

A166. ISA (Ireland) 450 (Updated July 2017)[73] and ISA (Ireland) 700 (Revised May 2026)[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 but is likely to have a material effect on future periods' financial statements.

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 of the act, an instance of fraud is unlikely to be an

---

[73] ISA (Ireland) 450 (Updated July 2017), *Evaluation of Misstatements Identified during the Audit*

[74] ISA (Ireland) 700 (Revised May 2026), *Forming an Opinion and Reporting on Financial Statements*

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.

Determining if Control Deficiencies Exist

A171. ISA (Ireland) 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. 59)

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;
- 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

---

[75] ISA (Ireland) 265, paragraphs 8 and A6–A7

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]

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. 60–62)

Determining Key Audit Matters Related to Fraud

A177. Users of financial statements are interested in matters related to fraud about which the auditor had a robust dialogue with those charged with governance. The considerations in paragraph 60 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 60, 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 61.

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 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 about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general-purpose financial statements of a publicly traded 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 61.

A181. Accounting estimates are often the most complex areas of the financial statements because they may be dependent on significant management judgment. Significant auditor attention may be required in accordance with paragraph 60(a) to respond to

---

[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.

assessed risks of material misstatement due to fraud associated with an accounting estimate that involves significant management judgment. Significant management judgment 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 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 (Ireland) 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 (Ireland) 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 (Ireland) 701 (Revised May 2026),[77] the auditor's decision-making process in determining key audit matters is based on the auditor's professional judgment about which matters were of most significance in the audit of the financial statements 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

---

77 ISA (Ireland) 701 (Revised May 2026), paragraph 10

78 ISA (Ireland) 701 (Revised May 2026), paragraph A1

the financial statements as a whole.[79] As users of financial statements 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 60, would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

A186. ISA (Ireland) 701 (Revised May 2026)[80] 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 the potential that such descriptions become overly standardized 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 judgments made in the financial statements 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 language.

A189. ISA (Ireland) 701 (Revised May 2026)[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 (Ireland) 701 (Revised May 2026)[82] describes that management or those charged with governance may decide to include new or enhanced disclosures in the financial statements 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.

---

79 ISA (Ireland) 701 (Revised May 2026), paragraph A29

80 ISA (Ireland) 701 (Revised May 2026), paragraph A29

81 ISA (Ireland) 701 (Revised May 2026), paragraphs A34–A36

82 ISA (Ireland) 701 (Revised May 2026), paragraph A37

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

A191. ISA (Ireland) 701 (Revised May 2026), 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 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. 63)

A193. ISA (Ireland) 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 (Ireland) 330 (Updated October 2022).[86]

A194. ISA (Ireland) 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 evidence. Doubts about the reliability of information from management may indicate a risk of material misstatement due to fraud.

---

83 ISA (Ireland) 701 (Revised May 2026), 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 ISA (Ireland) 580, *Written Representations*

86 ISA (Ireland) 330 (Updated October 2022), paragraph 26

87 ISA (Ireland) 580, paragraphs 16–18

Communications with Management and Those Charged with Governance (Ref: Para. 56R-1, 64–66)

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.

A195-1. In Ireland, laws or regulations may prohibit alerting ("tipping off") the entity when, for example, the auditor is required to report the non-compliance to an appropriate authority pursuant to anti-money laundering legislation.

Communication with Management (Ref: Para. 64)

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).

Communication with Those Charged with Governance (Ref: Para. 65)

A197. The auditor's communication with those charged with governance may be made orally or in writing. ISA (Ireland) 260 (Revised May 2026) 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, 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. 66)

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 statements may be misstated.

---

88 ISA (Ireland) 260 (Revised May 2026), paragraph A38

- 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 users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Communication with Those Charged with Governance of Public Interest Entities (Ref: Para 56R-1)

A200-1. For audits of financial statements of public interest entities, ISA (Ireland) 260 (Revised May 2026)[88a] requires the auditor to communicate in the additional report to the audit committee any significant matters involving actual or suspected non-compliance with laws and regulations which were identified in the course of the audit. This would include fraud or suspected fraud when such communication is not prohibited by laws or regulations (see paragraph A195-1). The additional report to the audit committee is required to be in writing.[88b]

Reporting to an Appropriate Authority Outside the Entity (Ref: Para. 67)

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

A202. ISA (Ireland) 250 Section A (Updated October 2024) [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]

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 judgments. In those circumstances, the

---

88a ISA (Ireland) 260 (Revised May 2026), paragraph 16-2(k).

88b ISA (Ireland) 260 (Revised May 2026), paragraph 20-1(a).

89 ISA (Ireland) 250 Section A (Updated October 2024), paragraphs A28–A34-3

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.

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.

Reporting to Authorities of Public Interest Entities (Ref: Para. 67R-1)

A205-1. The disclosure in good faith to the authorities responsible for investigating such irregularities, by the auditor, of any irregularities referred to in paragraph 67R-1 does not constitute a breach of any contractual or legal restriction on disclosure of information in accordance with the Audit Regulation.[90a]

A205-2. The auditor considers whether to take further action when the entity investigates the matter referred to in paragraph 56R-1 but where the measures taken by management or those charged with governance, in the auditor's professional judgement, were not appropriate to deal with the actual or potential risks of fraud identified or would fail to prevent future occurrences of fraud.

Documentation (Ref: Para. 68)

A206. ISA (Ireland) 230 (Updated October 2024)[91] 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.

[90a] Article 7 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014.

[91] ISA (Ireland) 230 (Updated October 2024), paragraphs 11 and A15

Appendix 1

(Ref: Para. A26 and A43)

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/rationalizations. 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 organizations 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 judgments 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 recognized 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 organizational structure, as evidenced by the following:

- Difficulty in determining the organization or individuals that have controlling interest in the entity.
- Overly complex organizational 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/Rationalizations

- Management and those charged with governance have not created a culture of honesty and ethical behavior. 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 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 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 the use of unreasonable assumptions used in projections to account for impairment of goodwill and intangible assets, for example, to avoid recognizing 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 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. 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 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 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 recognized in the current period.

Attitudes/Rationalizations

- 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 indicating displeasure or dissatisfaction with the entity or its treatment of the employee.
- Changes in behavior or lifestyle that may indicate assets have been misappropriated.
- Tolerance of petty theft.
- Rationalizing misappropriations committed during severe economic downturns by intending to pay back the entity when circumstances return to normal.

Appendix 2

(Ref: Para. A59, A127 and A135)

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 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, 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 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 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 selected opening balance sheet accounts of previously audited financial statements to assess how certain issues involving accounting estimates and judgments, 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 authorized 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 authorized.

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 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 cutoff 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 recognized.
- Analyzing 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.

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 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, 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 specialized 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 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 recoveries of written-off accounts.
- Analyzing 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 computerized match of the supplier list with a list of employees to identify matches of addresses or phone numbers.
- Performing a computerized 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 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 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. A29)

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 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 unauthorized 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 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 ratios or relationships – for example, receivables growing faster than revenues.
- Inconsistent, vague, or implausible responses from management or employees arising from inquiries 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 earning's 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, or in other information included in the entity's annual report.
- An unwillingness to add or revise disclosures in the financial statements 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, including

- 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.

- 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 authorized duties.
- Controls or audit logs being switched off.

Appendix 4

(Ref: Para. A100, A104 and A143)

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 statements[93] (see also paragraph 35 of this ISA (Ireland)) – 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 statements.
    - The types of journal entries (whether standard or non-standard) incorporated in the general ledger and, in turn, reported in the financial statements, including other adjustments made directly to the financial statements.
    - 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 closing process.
- Understanding of the entity's controls designed to prevent or detect fraud over journal entries[94] (see also paragraph 36 of this ISA (Ireland)) – 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 authorizations 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 unauthorized 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 unauthorized or inappropriate intervention or manipulation.

---

93 ISA (Ireland) 315 (Revised May 2026), paragraph 25

94 ISA (Ireland) 315 (Revised May 2026), 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 rationalizations 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 unauthorized 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 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 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 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 unauthorized suppliers or made by terminated or transferred employees).
    - Opportunities arising from privileged access granted to individuals involved in the financial statement 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 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. A18)

Other ISAs (Ireland) Addressing Specific Topics that Reference Fraud or Suspected Fraud

This Appendix identifies other ISAs (Ireland) with specific requirements that refer to fraud or suspected fraud. The list does not include other ISAs (Ireland) with requirements that refer to fraud or error (e.g., ISA (Ireland) 210 (Revised May 2026),[95] ISA (Ireland) 315 (Revised May 2026), ISA (Ireland) 700 (Revised May 2026)). The list is not a substitute for considering the requirements and related application and other explanatory material in the ISAs (Ireland).

- ISA (Ireland) 402*, Audit Considerations Relating to an Entity Using a Service Organization* – paragraph 19
- ISA (Ireland) 505 (Revised March 2024)*, External Confirmations* – paragraphs 8(b) and 11
- ISA (Ireland) 540 (Updated October 2023)*, Auditing Accounting Estimates and Related Disclosures* – paragraph 32
- ISA (Ireland) 550, *Related Parties* – paragraphs 22(e) and 23(a)(i)
- ISA (Ireland) 600 (Revised May 2026), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraphs 38(d), 44A, 45(h), 55, 57(d) and 59(g)(i)
- ISA (Ireland) 700 (Revised May 2026), *Forming an Opinion and Reporting on Financial Statements* – paragraph 40(a)

[95] ISA (Ireland) 210 (Revised May 2026), *Agreeing the Terms of Audit Engagements*

IAASA

Irish Auditing & Accounting
Supervisory Authority

Irish Auditing & Accounting Supervisory Authority

Willow House
Millennium Park
Naas, Co. Kildare
W91 C6KT
Ireland

Phone: +353 (0) 45 983 600
Email: info@iaasa.ie

www.iaasa.ie