

# **Opinion on the Standard Setting to Address Risks of Fraud in an Audit**

March 26, 2013  
Business Accounting Council

## **I. Background and approach to developing a Standard to Address the Risks of Fraud in an Audit**

### **1. Background**

Under current Auditing Standards, an auditor is required to perform an audit including maintaining professional skepticism and assessing the risks of material misstatement due to fraud or error, reflecting the results of such assessment in the audit plan and conducting the audit based on the plan. However, since fraud is an intentional act which involves deception, the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error. In addition, the risk of not detecting a material misstatement resulting from management fraud is greater than for employee fraud because fraud involving management is often executed by overriding internal controls.

In connection with the recent succession of cases involving fraud, it has been suggested that the requirements for the auditor under the current Auditing Standards are not sufficiently clear when there are any circumstances that indicate the possibility of a material misstatement due to fraud. As a result, this has caused inconsistency in audit practice. It has also been suggested that if there are any such circumstances, the audit procedures should be performed in a more cautious manner in light of the characteristics of fraud.

Accordingly, the Audit Committee, a sub-committee on auditing standards of the Business Accounting Council has decided to establish a new standard titled “Standard to Address Risks of Fraud in an Audit” (hereinafter referred to as “Standard to Address Risks of Fraud” or “this Standard”), in order to clarify audit procedures to address the risks of material misstatements due to fraud and to require more cautious performance of audit procedures in certain specific circumstances.

## 2. Basic Concepts Underlying the Standard to Address Risks of Fraud

The Standard to Address Risks of Fraud has been established based on the following basic concepts:

- (1) Misstatements in financial statements can arise from either fraud or error. This Standard covers material misstatements that arise from fraud in the financial statement audit. The term “fraud” as referred to in this Standard means an intentional act by one or more individuals which may include management, employees, or third parties, using deception to obtain an unjust or illegal advantage.
- (2) This Standard is not intended to change the purpose of the financial statement audit nor intended to expose fraud. This standard stipulates the requirements for the auditor to address risks of material misstatement due to fraud (hereinafter simply referred to as “risks of fraud”) in the financial statement audit.
- (3) This Standard is not intended to uniformly require additional specified audit procedures to respond to risks of fraud in all financial statement audits. This Standard is, based on the concept of a risk-based approach which has already been adopted in the current Auditing Standards and is intended to enhance the effectiveness of the financial statement audit through clarifying audit procedures and to require an appropriate assessment of risks of fraud and performance of audit procedures appropriately in response to the assessed risks of fraud.
- (4) An auditor is responsible for expressing an audit opinion on the financial statements prepared by management, and such auditor’s responsibility to express an opinion on the financial statements is distinguished from management’s responsibility to prepare the financial statements. When an auditor performs an audit with due professional care, the auditor is considered to have fulfilled their responsibility.

### 3. Applicability of the Standard to Address Risks of Fraud

#### (1) Scope of Application of the Standard to Address Risks of Fraud

The purpose of this Standard is to ensure the transparency and fairness of the capital market in Japan by more effectively addressing the risks of fraud. Therefore, this Standard has been prepared with the prospect that it shall be applied primarily in audits of companies that are required to provide disclosures under the Financial Instruments and Exchange Act (excluding unlisted companies with a stated capital less than 500 million yen or with annual sales less than one billion yen and total liabilities less than 20 billion yen), whose financial statements or the audit report thereon are used by a broad range of users (hereinafter referred to as “the publicly traded companies”). The scope of application of this Standard shall be clarified in the relevant laws and regulations and thus, unless explicitly required by the relevant laws and regulations, this Standard is not applicable.

#### (2) Status of the Standard to Address Risks of Fraud

The Auditing Standards shall commonly be applied in all audits. However, this Standard has been established as a standard that is separate from current Auditing Standards and the Quality Control Standard for Audit (hereinafter referred to as the “Quality Control Standard”) since, (i) as stated above, this Standard would be applied to the audits of the publicly traded companies, and (ii) it would be more understandable for auditors if the requirements to address the risks of fraud were organized in one standard.

This Standard is part of the generally accepted auditing standards in Japan (J-GAAS), together with the Auditing Standards and Quality Control Standard, when application of this Standard is required by the relevant laws and regulations. In addition, it is necessary for auditors to apply in an integrated manner this Standard together with the Auditing Standard Committee Statements (ASCSs) and the Quality Control Standard Committee Statement (QSCS) prepared by the Japanese Institute of Certified Public Accountants (JICPA).

## **II. Effective date and other**

1. This Standard is effective for the audits of financial statements for periods ending on or after March 31, 2014, except for the third part of this Standard, “Audit firm’s quality control to address risks of fraud,” which is effective on or after October 1, 2013.
2. The JICPA is requested to promptly revise the ASCSs and a QCSCS as necessary to implement this Standard in practice, after consultation with the relevant parties in due process.

### **Background Information Regarding the Auditing Standards in Japan**

Auditing standards generally accepted in Japan consist of the following:

- Auditing Standards codified by the Business Accounting Council (BAC), an advisory body established within the Financial Services Agency (FSA);
  - ◇ The Auditing Standards stipulate principles and key concepts about the financial statement audit, agreed among broad stakeholders.
  - ◇ The Standard on Quality Control for Audits is required to be applied together with the Auditing Standards.
  - ◇ The BAC consists of practitioners as well as non-practitioners including academics, executives of major companies, investors, a representative from the stock exchanges, and is observed by the Ministry of Justice.
- Auditing Standards Committee Statements (ASCSs) and a Quality Control Standard Committee Statement (QCSCS) issued by the Japanese Institute of Certified Public Accountants (JICPA). (\*)
  - ◇ The BAC requests the JICPA to develop detailed requirements to implement Auditing Standards codified by the BAC in practice. These requirements, together with relevant application materials, are included in the ASCSs and a QCSCS.
  - ◇ The ASCSs and a QCSCS are developed based on Auditing Standards codified by the BAC, and to converge with the clarified International Standards of Auditing (ISA) and the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB).

(\*)

- In October 2006, the JICPA issued ASCS No. 35 *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*, which was developed to converge with ISA 240.
- In December 2011, the JICPA issued QCSCS 1 and ASCSs with the same numbers as used in the clarified ISQC 1 and ISAs, including ASCS 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, which were redrafted based on clarified ISA 240. Those QCSCS and ASCSs are effective for periods beginning on or after April 1, 2012.
- Based on the Standard to Address Risks of Fraud in an Audit which is currently proposed to the public, relevant QCSC 1 and ASCSs, including ASCS 240, will be revised.

# **Standard to Address Risks of Fraud in an Audit**

## **I. Emphasis on Professional Skepticism**

1. The auditor shall maintain professional skepticism throughout the audit, bearing in mind risks of material misstatements due to fraud (hereinafter referred to as the “risks of fraud”) at all times, notwithstanding the auditor’s past experience of the integrity of management and others within the entity.
2. The auditor shall exercise professional skepticism in assessing risks of fraud, taking into account the characteristics of fraud.
3. The auditor shall exercise professional skepticism in performing audit procedures to address the identified risks of fraud.
4. The auditor shall exercise professional skepticism in evaluating the audit evidence obtained so as not to overlook any circumstances that indicate the possibility of a material misstatement due to fraud.
5. The auditor shall exercise increased professional skepticism in determining whether there is any suspicion of a material misstatement due to fraud and in performing the audit procedures to address such a suspicion.

(\* ) Professional skepticism—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

## **II. Conducting the Audit to Address Risks of Fraud**

1. Obtaining an understanding of the instances of fraud in the entity and the industry in which the entity operates

The auditor shall obtain an understanding of the typical instances of fraud which have been made public and general and industry-specific business practices that are likely to be used for fraud, in order to appropriately assess risks of fraud, as part of obtaining an understanding of the entity and its environment, including the industry in which the entity operates.

## 2. Inquiries related to risks of fraud

The auditor shall make inquiries of management, those charged with governance, and others within the entity as appropriate, regarding the facts and knowledge that they have in relation to the risks of fraud.

The auditor shall also make inquiries of management regarding its views on the factors and types of fraud that could occur in the entity, the measures against fraud, and other matters related to fraud. The auditor shall use the information obtained from such inquiries in the risk assessment.

(\* Japanese companies either have an “Audit & Supervisory Board” or an “Audit Committee” depending on the corporate structure. In this standard, “those charged with governance” covers “Audit & Supervisory Board Members” as well as “Audit Committee Members”.

## 3. Considerations of fraud risk factors in developing an audit plan

The auditor shall evaluate whether the information obtained indicates that one or more fraud risk factors are present and take such information into account in identifying and assessing the risks of fraud at the financial statement level as well as at the assertion level for classes of transactions, account balances, and disclosures in developing an audit plan. The auditor shall develop an audit plan concerning the overall responses and the further audit procedures to address the assessed risks of fraud.

Examples of fraud risk factors are presented in Appendix 1, however, the auditor shall remain alert to the possibility that additional or different risk factors other than those in Appendix 1 may exist.

## 4. Discussions and sharing of information among the engagement team

The engagement partner and other key engagement team members shall discuss how and where the financial statements may be susceptible to material misstatement due to fraud, and share their insights and information among the engagement team members.

The engagement partner shall direct engagement team members to bring matters arising during the audit which could be significant accounting and auditing issues, such as unusual transactions that raise questions about the business rationale, to the

attention of the engagement partner and more experienced engagement team members.

5. Audit procedures to address risks of fraud

The auditor shall obtain audit evidence more relevant, reliable and/or quantity of audit evidence for an assertion with identified risk of fraud than for the assertion in which no risk of fraud has been identified.

6. Incorporation of an element of unpredictability

The auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed to address the identified and assessed risk of fraud at the financial statement level.

7. External confirmation procedures to address risks of fraud

When the auditor uses a positive confirmation request to address assessed risks of fraud, but the confirming party fails to respond or does not fully respond to such a positive confirmation request, the auditor shall carefully determine if the auditor will be able to obtain sufficient appropriate audit evidence, using an alternative procedure.

When the auditor performs an alternative procedure, the auditor shall determine whether the auditor is able to obtain relevant and reliable audit evidence for the assertion using the alternative procedure. If the auditor performs an alternative procedure and uses as only audit evidence information that was prepared by the entity or its affiliates, the auditor shall determine the reliability of such information in a more cautious manner.

8. Evaluating the sufficiency and appropriateness of audit evidence

The auditor shall determine whether sufficient appropriate audit evidence has been obtained for the assertion related to the risk of fraud based on the audit procedures performed and the audit evidence obtained. If the auditor has determined that sufficient appropriate audit evidence has not been obtained, the auditor shall perform additional audit procedures.

9. Performing audit procedures if inconsistency in audit evidence or other specific



conditions are identified

If conditions identified during the audit cause the auditor to believe that a document may not be authentic, that terms in a document have been modified or that audit evidence obtained from one source is inconsistent with that obtained from another, the auditor shall determine what modifications or additions to audit procedures are necessary (e.g. confirming directly with a third party or using the work of an expert).

10. Circumstances that indicate the possibility of a material misstatement due to fraud

If the auditor identifies during the audit any circumstances that indicate the possibility of a material misstatement due to fraud, the auditor shall make inquiries of and ask for explanations from management and perform additional audit procedures in order to determine whether there is a suspicion of a material misstatement due to fraud.

Appendix 2 contains examples of circumstances that indicate the possibility of a material misstatement due to fraud, however, the auditor shall remain alert to the possibility that additional or different circumstances may exist.

11. A Suspicion of a material misstatement due to fraud

When the auditor has determined that management's explanations, together with the audit evidence obtained relevant thereto, are not considered reasonable in relation to a certain circumstance that indicates the possibility of a material misstatement due to fraud, the auditor shall treat it as a suspicion of a material misstatement due to fraud.

In addition, if the auditor is unable to obtain sufficient appropriate audit evidence related to the assessed risk of fraud, even after performing additional audit procedures that the auditor determined necessary as a result of performing the audit procedure originally designed in response to the assessed risk of fraud, the auditor shall treat it as a suspicion of a material misstatement due to fraud.

When the auditor has concluded not to treat a circumstance as a suspicion of a material misstatement due to fraud, the auditor shall include in the audit documentation the conclusion and the rationale for that conclusion.

12. Modification of the audit plan when the auditor has determined that a suspicion of

a material misstatement due to fraud exists

When the auditor has determined that any suspicion of a material misstatement due to fraud exists during the audit after the original audit plan was developed, the auditor shall modify the audit plan to include audit procedures that are specifically responsive to the types of possible fraud, including sufficient investigation related to such a suspicion, in order to obtain sufficient appropriate audit evidence in relation to the suspicion.

13. Performing audit procedures when the auditor determines a suspicion of a material misstatement due to fraud exists

The auditor shall perform the audit procedures in accordance with the modified audit plan in order to obtain sufficient appropriate audit evidence for the assertion related to the suspicion of material misstatement due to fraud.

14. Using the work of an expert

The auditor shall determine whether the skill and knowledge of an expert is needed during the audit, for example, to perform assessments of risks of fraud, perform audit procedures, or evaluate audit evidence, according to the nature and significance of the risks of fraud.

15. Engagement quality control review to address risks of fraud

An engagement quality control review shall be conducted at appropriate stages during the audit for significant judgments made and conclusions reached to address the risks of fraud in compliance with the policies and procedures of the audit firm.

16. Engagement quality control review when the auditor determines a suspicion of material misstatement due to fraud exists

When the auditor determines that a suspicion of material misstatement due to fraud exists, the auditor shall not express an opinion until the engagement quality control review has been completed by an appropriate engagement quality control reviewer in compliance with the policies and procedures of the audit firm in regard to the auditor's responses to the suspicion of material misstatement due to fraud.

17. Communication with those charged with governance

The auditor shall communicate with those charged with governance, including

appropriate discussions with those charged with governance according to the nature and significance of the risks of fraud, at each stage during the audit.

When the auditor has determined that a suspicion of a material misstatement due to fraud exists, the auditor shall communicate the suspicion to those charged with governance as soon as practicable and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.

#### 18. Responses to a suspicion of fraud involving management

If the auditor suspects fraud involving management, the auditor shall discuss with those charged with governance such suspicion, and request management to take appropriate remedial actions. The auditor shall also evaluate the effect of the fraud on the financial statements.

#### 19. Audit documentation

When the auditor has determined that a suspicion of a material misstatement due to fraud exists, the auditor shall include in the audit documentation the nature of the suspicion, the audit procedures performed and the results thereof, the conclusion reached, and the significant professional judgments made in reaching those conclusions.

### **III. Audit Firm's Quality Control to Address Risks of Fraud**

#### 1. Quality control to address risks of fraud

The audit firm shall establish appropriate quality control policies and procedures taking into consideration the risks of fraud and appoint a person responsible for quality control to address the risks of fraud.

#### 2. Consideration of risks of fraud in the acceptance and continuance of audit engagement

The audit firm shall establish policies and procedures for the acceptance and continuance of audit engagements, which include the evaluation of risks relating to the acceptance and continuance of the audit engagement considering the risks of fraud. The policies and procedures shall also require that the evaluation be reviewed by an appropriate department or person outside the engagement team. The review is required for the acceptance of all new engagements, however,

depending on the risks identified, a review is not necessarily required for the continuance of an engagement.

3. Education and training concerning fraud

The audit firm shall establish policies and procedures for education and training to provide appropriate opportunities for audit firm personnel to receive education and training concerning fraud, including training seminars within or outside the audit firm. The education and training will enable personnel to gain knowledge on the instances of fraud and to develop skills to perform the audit procedures related to fraud.

4. Supervision and review to address risks of fraud

The audit firm shall establish policies and procedures for supervision and review of the audit work in order to properly address the risks of fraud, and shall appropriately implement the policies and procedures

5. Dealing with the information related to risks of fraud, provided from within or outside the audit firm

The audit firm shall establish policies and procedures designed to appropriately deal with information relating to the risks of fraud provided from within or outside the audit firm. This requires that when the audit firm receives the information, the audit firm communicates the information to the relevant engagement team, and the engagement team reports to the appropriate department or person outside the engagement team on how the engagement team addressed the information during the course of the audit.

6. Consultation when the auditor determines a suspicion of a material misstatement due to fraud exists

The audit firm shall establish policies and procedures for consultation so that the members of the engagement team undertake consultation with others at the appropriate level within or outside the audit firm (e.g. appropriate resources of the audit firm who have relevant technical expertise and experience), as necessary, when the auditor has identified a circumstance that indicates the possibility of a material misstatement due to fraud or the auditor has determined that a suspicion of a material misstatement due to fraud exists.

7. Engagement quality control review when the auditor has determined that a suspicion of a material misstatement due to fraud exists

The audit firm shall establish policies and procedures requiring an engagement quality control review to be conducted as to whether the modified audit plan and audit procedures are appropriate and whether sufficient appropriate audit evidence has been obtained when the auditor has determined a suspicion of material misstatement due to fraud exists

The audit firm shall appoint a qualified engagement quality control reviewer (including a team made up of qualified individuals) with sufficient and appropriate experience, authority and other qualifications that is responsive to the relevant suspicion.

- (\* ) The engagement quality control review stipulated in this paragraph may be different from the engagement quality control review under the circumstances where no suspicion of material misstatement due to fraud has been identified, in terms of the scope of the review, as well as the experience and authority of the reviewer.

8. Communication between the predecessor and the successor engagement partners when there has been a change of engagement partners within the audit firm

The audit firm shall establish policies and procedures for quality control of engagement performance requiring significant matters arising from the audit, including the risks of fraud, be appropriately communicated between the predecessor and the successor engagement partners when there has been a change of all of the engagement partners within the engagement team.

9. Communication between the predecessor and the successor auditors where there have been a change of auditors

The audit firm shall establish policies and procedures for communication with the successor auditor requiring that the predecessor auditor to communicate significant matters arising from the audit, including the risks of fraud, to the successor auditor and to accept the request from the successor auditor to review the relevant working papers when there has been a change of auditors.

The audit firm shall also establish policies and procedures for communication with the predecessor auditor requiring the successor auditor to make inquiries of the predecessor auditor as to the reason for the change of auditors as well as significant matters arising from the audit, including, how the risks of fraud have been addressed.

In addition, the audit firm shall establish policies and procedures for communication between the predecessor and the successor auditors requiring the engagement team to report the results of the communications to the appropriate department or person outside the engagement team.

#### 10. Monitoring as to how the risks of fraud have been addressed in the audit

The audit firm shall ascertain whether the following matters have been conducted in conformity with the quality control policies and procedures of the audit firm, by monitoring of the system of quality control to address the risks of fraud:

- Acceptance and continuance of audit engagements
- Education and training concerning fraud
- Engagement performance (including supervision and review, dealing with information provided from within and outside the audit firm, consultations, engagement quality control review and communications between the predecessor and the successor engagement partners when there has been a change of engagement partners within the audit firm)
- Communication between the predecessor and the successor auditors

### Examples of Fraud Risk Factors

In performing a risk assessment, the auditor shall examine the typical fraud risk factors as exemplified below and determine whether they are applicable, in order to identify and assess the risks of fraud.

(Note)

This appendix covers risk factors relating to misstatements arising from fraudulent financial reporting only because of its importance, while auditors are required to consider risk factors relating to misstatements arising from misappropriation of assets.

#### 1. Incentives/Pressures

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

(e.g.)

- \* Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.
- \* High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.

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

(e.g.)

- \* Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages.
- \* The entity could violate exchange listing requirements or debt repayment or other debt covenant requirements.

(3) 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:

(e.g.)

- \* Significant financial interests in the entity.

- (4) There is excessive pressure on management (including management of subsidiaries), operating personnel, or other employees, etc., to meet financial targets (including those established by his/her superiors), including sales or profitability incentive goals.

## **2. Opportunities**

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

(e.g.)

- \* Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- \* Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.
- \* Formation of a special purpose entity for which there appears to be no clear business justification
- \* The entity operates in the industry where transactions could be initiated or modified without formal documents agreed-upon by both parties. For example transactions could be initiated using a contract yet to be signed or sealed, or transactions are initiated or modified by oral negotiation between the representatives, before the purchase orders and order receipts are finalized by a formal document.

- (2) The monitoring of management is not effective as a result of the following:

(e.g.)

- \* Domination of management by a single person or small group (in a non owner managed business) without compensating controls.

- (3) There is a complex or unstable organizational structure, as evidenced by the following:

(e.g.)

- \* Overly complex organizational structure involving unusual legal entities or managerial lines of authority.

- (4) Internal control components are deficient as a result of the following :

(e.g.)

- \* Accounting and information systems are not functioning effectively.

## **3. Attitudes/Rationalizations**

(e.g.)



- \* Communication, implementation, support or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards, that are not effective.
- \* 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.
  - Unusual delay in or failure of providing requested document or information necessary for the audit.
  - Restrictions on the auditor that inappropriately limit access to people or information, contact with suppliers or customers, even though the auditor determined the communication is necessary, or restriction on the ability to communicate effectively with those charged with governance.

# Examples of Circumstances that Indicate the Possibility of a Material Misstatement Due to Fraud

In accordance with Part II, 10 of this standard, if during the audit the auditor identifies any circumstances that indicate the possibility of a material misstatement due to fraud, described below as examples, the auditor shall make inquiries of and ask for explanations from management and perform additional audit procedures in order to determine whether there is a suspicion of a material misstatement due to fraud.

### 1. Information in Relation to Fraud

- \* Information which has been provided to the entity through the whistle-blowing system and disclosed to the auditor containing information which is deemed to have a material effect on the financial statements.
- \* Information related to the possibility of fraud has been provided to the auditor, from employees, counterparties or others  
(including information received through the whistle-blower channel of the audit firm)

### 2. Unusual Transactions, etc. To Be Considered

- (1) Circumstances that indicate the possibility of improper revenue recognition
  - \* Significant transactions that are outside the normal course of business of the entity and significant unusual transactions in light of the auditor's understanding of the entity and the environment surrounding the industry in which it operates, for which the business rationale appears unclear.
- (2) Circumstances that indicate the possibility of off-balance transactions such as fictitious cash disbursement and reimbursement
  - \* Acquisition of significant assets or a business, significant new investments or significant expenses which are not directly related to the entity's business activities or for which the business rationale appears unclear.
- (3) Others
  - \* Loan agreement (receivable or payable), provision of a security or guarantee

provided or accepted, for which the business rationale appears unclear, with related parties or other parties (including individuals) whose relationship with the entity remains unclear.

### **3. Circumstances that Indicate the Possibility of Alteration, Forgery or Concealment of Evidence**

- \* Documents that appear to be altered or forged.
- \* Inconsistent evidence included in important records, etc. or missing important documents to be used as evidence in relation to significant transactions.
- \* Unavailability of important documents or availability of important documents in draft-form only in relation to significant transactions without reasonable grounds.

### **4. Circumstances that Indicate the Possibility of Inappropriate Accounting Adjustment**

- \* Significant transactions that are not recorded in a complete or timely manner until near the balance sheet date or are improperly recorded as to the amount, accounting period or classification.
- \* Unsupported or unauthorized balances or transactions (by evidence).
- \* Last-minute unusual adjustments made near the balance sheet date that would significantly affect the financial results.
- \* Disagreement among figures, which are expected to be in agreement, in the vouchers, books of account, or accounting records (such as general ledger, subsidiary ledger, or account detail) in relation to significant transactions without reasonable explanations.
- \* Change in significant accounting policies without reasonable grounds.
- \* Frequent changes in significant accounting estimates that do not appear to result from changed circumstances.

### **5. Results of Confirmation**

- \* Significant discrepancies between the entity's records and confirmation replies without reasonable grounds.
- \* Repeated failures of confirmation replies to be returned from certain specific customers directly to the auditor without reasonable grounds.

### **6. Management's Responses to Audit**

- \* Entity's denial, interference or request of change, for the auditor's access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence might be sought, without reasonable grounds.
- \* Entity's request for the auditor to change the confirming party or refusal to send a confirmation letter to a certain confirming party without reasonable grounds, or existence of any confirming party for which the entity takes much longer to prepare the confirmation letter compared with other confirming parties.

## **7. Others**

- \* Entity's use of an expert, whose capability or objectivity is in doubt, related to transactions which have a significant effect on the financial statements.
- \* Failure of the entity to provide the auditor with sufficient information regarding a significant investee or counterparty, or custodian of significant assets.