

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 report may contain a material misstatement due to fraud.

Discrepancies in the accounting records, including:

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

Conflicting or missing evidence, including:

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

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

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

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

Other

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

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