

Fraud – Question 5

5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report?

Q05 Agree**1. Monitoring Group****International Forum of Independent Audit Regulators**

We also support the enhanced transparency on fraud-related responsibilities and procedures in the auditor's report, including key audit matters (KAMs) relating to fraud.

2. Investors and Analysts**Eumedion**

Agree (with no further comments)

3. Regulators and Audit Oversight Authorities**Securities and Exchange Commission of Brazil**

Agree (with no further comments)

5. Accounting Firms**Moore Global Network**

Agree (with no further comments)

Crowe Global

ED-240 does appropriately enhance transparency about matters related to fraud in the auditor's report.

7. Member Bodies and Other Professional Organizations**Malaysian Institute of Certified Public Accountants**

Agree (with no further comments)

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer 5: We believe that ED 240 improves transparency on fraud-related issues in the auditor's report

Institute of Chartered Accountants of Jamaica

Agree (with no further comments)

Institute of Chartered Accountants of Ghana

Agree (with no further comments)

Institute of Certified Public Accountants of Rwanda

Agree (with no further comments)

Instituto Nacional de Contadores Públicos de Colombia

Agree (with no further comments)

8. Academics

University of KwaZulu-Natal

Agree (with no further comments)

9. Individuals and Others

Moises Gonzalez Mercado

Agree (with no further comments)

2 Agree with comments

1. Monitoring Group

International Organization of Securities Commission

We are generally supportive of the IAASB's approach to enhance transparency in the auditor's report about fraud-related matters, where appropriate, including the proposed use of existing requirements in ISA 701, Communicating key audit matters in the independent auditor's report, while emphasizing the need to report entity-specific information in Key Audit Matters (KAMs) and discouraging the use of boilerplate language. To further drive an increase in reporting of KAMs related to fraud to satisfy the needs expressed by stakeholders for more transparency about matters related to fraud in the auditor's report, we believe the IAASB should add the following requirement to ED-240 paragraph 61:

These matters related to fraud are often matters that require significant auditor attention and would ordinarily be of most significance in the audit of the financial statements of the current period and therefore considered key audit matters.

In order to be consistent with the conforming and consequential amendment proposed in ISA 700 (Revised), Forming an opinion and reporting on financial statements, paragraph 40(a)(iii), we suggest adding the following requirement to ED-240 paragraph 61:

(d) Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

ED-240 paragraph 61 would, therefore, state:

In applying ISA 701, 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. A162–A168)

Identified and assessed risks of material misstatement due to fraud;

The identification of fraud or suspected fraud;

The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud; and

Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

These matters related to fraud are often matters that require significant auditor attention and would ordinarily be of most significance in the audit of the financial statements of the current period and therefore considered key audit matters.

We further recommend removing paragraph 64 which states: “...if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters related to fraud to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor’s report.” We believe ED-240, together with our suggestions above, appropriately enhances the transparency requirements about matters related to fraud in the auditor’s report and the inclusion of an explicit negative statement may increase the expectations gap as users may infer a higher level of assurance than reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. It may also have the unintended consequence of creating a scenario where an auditor would not be able to comply with the requirements in ED-240 when the circumstances described in ISA 701 paragraph 14 applies. Relatedly, we also recommend removing “including matters related to fraud” from the proposed title in the auditor’s report.

We also suggest the Board consider developing educational materials aimed at investors specifically to provide information about the role and responsibilities of the auditor related to fraud, the requirements of ED-240 and key audit matters in order to help address potential expectation gaps.

2. Investors and Analysts

Corporate Reporting Users’ Forum

Agree, with comments below

We agree that it is relevant and useful to provide the financial statement users with information about the fraud and the auditor’s response to address them, including its process.

That said, the auditor’s report is not the report on the entity’s fraud but the one in which the auditor expresses his or her opinion if the financial statements are prepared fairly or not. In this regard, we appreciate the ED-240’s proposal that the risk of fraud be mentioned in KAM (Key Audit Matters). We believe it is appropriate to refer to the risk of fraud in KAM, which is in the framework of audit of financial statements to assure if they are prepared in accordance with the GAAP. By doing so, we believe the meaning of fraud is clarified in the context of audit.

Referring to fraud in KAM does not mean at all that there is fraud or suspected fraud by the entity. The IAASB should clarify that, to let the financial statement users and auditees to fully understand it. We understand Paragraph A170 of ED-240 implies that it is usually expected there should be at least one KAM or more regarding fraud. If the IAASB wants to maintain A170, we believe thorough education on KAMs on fraud is essential to let stakeholders fully understand the meaning. Otherwise, we are concerned that the entity’s opposition against reference on fraud in KAMs would be even stronger than the one experienced when KAMs were first introduced.

CFA Institute

Agree, with comments below

See our overall comments in Part A regarding the proposed changes to enhance the transparency of the auditor’s report about matters related to fraud.

Increasing the Transparency of the Auditor’s Report About Matters Related to is Necessary, but Commingling with Key Audit Matters May Reduce Emphasis

The auditor’s report is the only part of the audit observable by investors, who are the end customer/consumer of the auditor/audit opinion and the ones at risk of losses from misstatements of the financial statements.

We believe the “expectations gap” between what investors think auditors do and what auditors do is largely the result of a lack of transparency in the auditor’s report: auditors do not tell investors what they do and have resisted attempts at improving transparency. We addressed that expectations gap and the topic of fraud in our 2019 Comment Letter to the UK Government on Independent Review into the Quality and Effectiveness of Audit Call for Views (Brydon Review).

We see four benefits to enhancing the transparency of the auditor’s report about matters related to fraud:

Auditors Efforts Enhanced – Improved transparency may increase auditors’ effort in detecting fraud.

Enhanced Auditors Efforts May Have Effect of Increase Management and TCWG Efforts – An increase in auditors’ effort at detecting frauds, from the increased transparency, may in turn increase effort by those charged with governance and management in preventing and detecting fraud, for example through investment in internal audit and internal control processes.

Better Investor Evaluation of the Audit Committee and Auditor – More informative audit reports may enable better evaluation of audit committees and auditors by shareholders as they oversee and elect the chair of the audit committee and its members, ratify the audit committee’s selection of the auditor, and their remuneration (a voluntary, non-binding vote in some jurisdictions but a mandatory vote in others such as Germany).

Possible Increase in Trust – More informative audit reports may increase investors’ trust in the financial statements and, more broadly, in capital markets.

The IAASB’s reforms to the auditor’s report with key audit matters (KAMs) have been successful in many cases, particularly in the UK, at improving transparency with engagement-specific information (unlike critical audit matters requirements in the US which have been a struggle). We are strong supporters of strengthening KAMs requirements over time to continue improving transparency, but we believe matters relating to fraud should be in its own section under its own heading in the auditor’s report, not commingled with other KAMs, with distinct requirements for the auditor to discuss:

Fraud risks identified in risk assessment;

The auditor’s response to the identified fraud risks; and

The auditor’s findings and conclusions.

Fraud is behind the most catastrophic losses, as material frauds have resulted in total losses for investors in some cases. As such, in the eyes of investors, auditors’ responsibilities related to fraud are amongst their most important responsibilities and therefore most deserving of discussion in the auditor’s report. Commingling KAMs and matters relating to fraud poses the following risks:

Reduces the emphasis of fraud by presenting it with other KAMs that may be less significant to investors.

May reduce the number of non-fraud KAMs discussed in the auditor’s report, as the fraud KAM counts towards an arbitrary target number that the practitioner is seeking to meet.

By increasing the length of a single section of the auditor’s report and aggregating disparate topics, the contents within the section are more likely to be obscured.

3. Regulators and Audit Oversight Authorities

Irish Auditing & Accounting Supervisory Authority

Agree, with comments below

Auditor's report

To increase transparency, the IAASB should require the auditor to explain the extent to which the audit was considered capable of detecting fraud in the auditor's report. At a minimum this should be required for PIE audits, as required by European Union legislation.

Key audit matters (KAMs)

IAASA supports paragraph 63, which requires an appropriate subheading in all audit reports regarding fraud related KAMs. Fraud related matters should always be highlighted in the KAMs, particularly given the public interest in and heightened stakeholder expectations regarding entities that are required to apply ISA 701.

IAASA also supports the proposal that the auditor shall include a statement when no specific KAMs related to fraud have been identified. Paragraph A175 (and A57 in ISA 701) sets out 3 circumstances in which this statement can be made. "The auditor determines ... that there are no KAMs regarding fraud" should only arise in exceptional situations and so should be removed from this paragraph.

We also recommend strengthening paragraph A176 which states: "it may be rare that the auditor of ... a listed entity would not determine at least one key audit matter related to fraud". Based on our inspection experience, this situation is unfortunately not 'rare' in practice. Additional clarity is needed in both ED 240 (for example in paragraph 64 and the related application material) and ISA 701 that fraud risks should be disclosed in the KAMs and disclosing no key audit matters in relation to fraud is the exception.

ED 240 and ISA 701 leave room for interpretation regarding whether fraud risks are risks that require significant auditor attention. For example:

Paragraph A168 of ED 240 states '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 62.'

Paragraph A21 of ISA 701 states 'The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention'.

These paragraphs seem to imply that some fraud risks do not need significant auditor attention. We think that this is a wrong signal to auditors and ask the IAASB to remove this from both ED 240 and ISA 701.

We note that there is a lot of overlap between ED 240 and ISA 701 on the responsibilities and procedures in the Auditor's Report. We suggest that the IAASB should review the application material in ED 240 to ensure it is fully consistent with ISA 701. Otherwise, there is a risk that these paragraphs may give rise to confusion and leave too much room for interpretation rather than providing clarification.

A number of countries already require reporting on fraud in the auditor's report. Early experience indicates that, while fraud risk and procedures performed by the auditor are communicated, relevant findings and conclusions about fraud risk are not. The IAASB should consider whether auditors should be required to report findings related to fraud, including findings and conclusions regarding fraud risk, and how to discourage the use of boilerplate text by auditors in this area.

Canadian Public Accountability Board

Overall comments

CPAB is supportive of the positive steps that the IAASB has taken to improve the audit procedures related to fraud in an audit of financial statements. We performed fraud thematic reviews in 2019 and 2021, the results of which, included in communications issued in 2020 and 2022, support our comments in this letter. We agree

more robust requirements are needed to promote consistent behaviour and facilitate effective identification and assessment of risks of material misstatement due to fraud and to reinforce the importance of auditors exercising professional skepticism in fraud-related audit procedures throughout the audit. In addition, we support the proposed changes to the communication of key audit matters related to fraud.

Botswana Accountancy Oversight Authority

Agree, with comments below

The proposed amendments on transparency on fraud related responsibilities and procedures in ED- 240 enhance transparency in the Auditor's report, i.e. the requirement for the Auditor to disclose; their responsibilities in relation to fraud, communicate Key Audit Matters Relating to Fraud and to communicate when there are no Key Audit Matters relating to Fraud through the proposed amendments to ISA 701 in the Auditor's Report. This requirement provides the public with information regarding the Auditor's responsibilities relating to an audit of financial statements and conclusions thereon.

4. Jurisdictional and National Auditing Standard Setters

Japanese Institute of Certified Public Accountants

Agree, with comments below

We agree with the proposal in ED-240 because we believe that enhancing transparency about matters related to fraud in the auditor's report is important in order to provide useful information to the users and from the perspective of public interest. On the other hand, if the Key Audit Matters (KAMs) related to fraud are communicated every year, there is a concern that the content will become boilerplate. We suggest that further improvements be made in finalizing the standard so that the intended enhancement in transparency can be achieved as expected. We also suggest that monitoring in the post implementation review be conducted to ensure that the intended enhancement in transparency is achieved.

We also propose that paragraph A162 be deleted, as it appears to be similar to the requirement in paragraph 61.

Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables

In our respective capacity as Presidents of the CNCC and CNOEC, we are pleased to submit to you the comments of the French profession to the ED of proposed ISA 240 (Revised).

First, we agree that fraud is certainly a major issue of public interest. It is also high on the agenda of the regulators, and we understand why the IAASB has therefore re-opened ISA 240.

However, fraud (together with going concern) is also one major component of the expectation gap, and we are concerned that the ED, in its attempt to improve transparency in the auditor's report as to what was done in the audit and what was found (or not found) regarding fraud may widen the expectation gap, rather than close (or reduce) it.

Management and internal controls are the first lines of defense against fraud. They will always be the most efficient way to prevent and detect fraud and it is important that all stakeholders understand that. The audit is designed to identify and respond to risks of material misstatements in the financial statements whether due to fraud or error. It is designed to provide assurance to the users that the financial statements prepared by management gives a true and fair view so that they can rely on it to base their economic decisions. The audit

is not specifically designed to detect fraud and, unless the auditor is specifically engaged to assess the efficiency of internal controls, the audit is not designed either to prevent fraud.

This is why we recommend drafting very carefully the paragraph in the auditor's report which says that the auditor has no key audit matters to report, including matters related to fraud, in order not to give to the reader the impression that the audit guarantees a total absence of fraud.

We have proposed some drafting amendments to that paragraph in our detailed comments below.

Agree, with comments below

In proposed conforming amendments to ISA 701, we believe that paragraph A58, which illustrates the presentation and wording of the paragraph in the auditor's report when the auditor has determined that there are no key audit matters to communicate ("We have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report"), risks being misunderstood.

Indeed, we believe that using that wording can be understood as a total absence of fraud and not as a non-disclosure of insignificant fraud, which may increase the expectation gap.

It should be clarified by adding the following wording: "As part of our determination of which matters were of most significance in our audit, we have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report."

We also suggest the following wording to clarify the independent auditor's report paragraph related to KAM:

"Key audit matters, including matters related to fraud, are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. These are not an exhaustive list of all significant matters addressed in the audit and communicated to Those Charged with Governance."

In addition, the communication of the absence of a KAM related to fraud in the auditor's report could have the unintended consequence of encouraging boiler plate KAMs on the risk of management overriding controls, in many auditor's reports.

We agree that transparency in the auditor's report regarding fraud is a matter of public interest. However, we believe that the existing KAM mechanism in ISA 701 already covers matters related to fraud that are of most significance in the audit.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

Agree, with comments below

We commend the IAASB on its efforts to enhance transparency about the auditor's fraud-related responsibilities and procedures in the auditor's report. We believe it is in the public interest to be clear about what the auditor is doing in relation to fraud.

On balance, the NZAuASB supports the use of key audit matters as an appropriate mechanism for communicating fraud related matters. We see merit in the auditor's report mentioning fraud-related procedures, when appropriate, and providing insights into what the auditor did to address fraud risks.

Practitioners have noted that under existing requirements, if a fraud related matter requires significant auditor attention, it should already be reported as a key audit matter.

We have the following concerns with the proposals as drafted:

Creating a separate subset of key audit matters may give fraud related matters greater prominence than is warranted. In our view, the requirement in paragraph 63 requiring use of an appropriate subheading that clearly describes that the matter relates to fraud is not necessary. We believe it would be rare for a key audit matter to deal only with fraud and that it is more likely that key audit matters will contain elements of both fraud and error. While we support enhancing transparency and the auditor's report highlighting fraud considerations more regularly within key audit matters, a heading that highlights "fraud" implies that key audit matters are about either fraud or not. We are concerned that thinking separately about reporting of key audit matters for fraud does not reflect integrating the consideration of fraud into the risk assessment process.

We do not support the requirement in paragraph 64. We believe including a statement that there are no key audit matters related to fraud will be confusing for stakeholders and problematic for auditors. Moreover, users of the auditor's report may misconstrue any wording in an auditor's report to mean that the auditor is saying that an entity is "fraud free", something which the auditor simply cannot do.

Our recommendations to address these concerns while continuing to apply the key audit matter mechanism to enhance transparency include:

Retain the existing title "key audit matters", i.e., do not add the words "including matters related to fraud" as proposed in the conforming amendment to ISA 701, paragraph 11. Key audit matters are the matters that required significant auditor attention. We believe that key audit matters will often contain elements of both fraud and error.

We agree with and support the requirements in paragraphs 61 and 62 of ED-240, however for the reasons noted above we recommend deleting paragraphs 63 and 64. The application material in paragraphs A172 to A179 is helpful in guiding the auditor to discuss fraud in the key audit matters and could be linked to paragraphs 61 and 62.

Increased transparency about fraud-related matters cannot be solved by an auditing standard alone. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. Despite the importance of fraud to stakeholders, there is no requirement for management or those charged with governance to publicly make any assertions about fraud, with the onus falling entirely on the auditor. While auditors have a key role to play, they are not the policemen. The audit expectation gap cannot be addressed without a financial reporting ecosystem response. We therefore urge the IAASB to continue to work with other participants in the financial reporting chain to address this important issue.

5. Accounting Firms

BDO International

Agree, with comments below

We agree with the proposed changes in ED 240 about the enhancement of transparency about fraud related matters in the auditor's report. ED 240 follows ISA 701 about communicating Key Audit Matters (KAM) in the auditor's report. We agree with the IAASB, as indicated in paragraph A163 of ED 240, that users of financial statements have a specific interest in fraud related matters and that, most of the time, these matters require significant auditor attention and therefore are eligible to be reported as a KAM. We also agree with what is included in paragraph 240.64, that when the auditor determines that there are no KAMs related to fraud, the auditor shall include a statement about this in the auditor's report.

However, we believe that in the auditor's report, fraud should not be included in the Key Audit Matters section but in a separate section similar to going concern. If both topics are reported in two specific paragraphs, this would give the auditor the opportunity to also report on more general observations, such as the entity's fraud risk management system. Having a specific paragraph on fraud in the auditor's report provides more clarity on the responsibilities of management and those charged with governance (TCWG) related to fraud.

PriceWaterhouseCoopers

We are also concerned that the requirement in paragraph 64 may lead to potential misunderstanding of the auditor's report in cases when, based on the facts and circumstances of the audit, the auditor's work in relation to fraud did not rise to the level of a KAM or the auditor determines that a KAM should not be communicated (for reasons as described in ISA 701). For example, the statement that there are no KAMs related to fraud may be read as a guarantee that contradicts the inherent limitations of an audit as described in paragraphs 10-11 of the standard. Furthermore, in the event that an auditor considers that one or more boilerplate KAMs, as described above, should not be included, the requirement to make this statement may encourage their inclusion to avoid the need to make the statement, due to the perceived risks that it will be misinterpreted. Including a KAM that, in the auditor's judgment, would not otherwise be a matter of most significance in the audit of the financial statements, risks diluting the important signal that the other entity-specific KAMs are intended to send. Accordingly, we recommend this requirement be deleted. The consequential amendment to paragraph 11 of ISA 701 to amend the section title within the report to be "Key Audit Matters including Matters Related to Fraud" would also need to be made a conditional requirement such that, in the circumstances that the auditor determines there are no KAMs related to fraud to report, the "including" element is not included in the section title.

We agree with the Board's rationale, described in paragraph 65 of the EM, not to mandate reporting of control deficiencies as Key Audit Matters. Although there may be a correlation between identification of fraud and the effective operation of controls, that may not universally be the case. Therefore, it is not within the scope of the project to revise ISA 240 to propose new reporting on deficiencies in internal controls. Reporting on control deficiencies only in relation to fraud would also give rise to questions about why control deficiencies arising from other circumstances are not addressed. However, as the IAASB notes, the purpose of an audit of financial statements under the ISAs is not to test an entity's internal controls to identify significant deficiencies or to express an opinion on an entity's internal control over financial reporting, as well as the other reasons described in the EM. Therefore, we agree that the identification of significant deficiencies in internal control are best reflected as a factor in determining which matters related to fraud to communicate and how to describe those matters in the auditor's report.

Illustrative examples

When a KAM is reported that has a fraud element, auditors will typically describe the fraud aspect as part of a broader description of the KAM. We believe it would be beneficial for the IAASB to illustrate how KAMs may be described incorporating the auditor's consideration of fraud risk and how that was addressed in responding to the overall matter.

Post-implementation review

If the IAASB moves forward with the approach proposed in relation to transparency, it will be important for the Board to be clear in its communications about how the requirements are intended to be interpreted and applied. We would consider this an extension of the IAASB's work in relation to its auditor reporting post-implementation review, and it would likely be helpful to also consider other changes being proposed to the auditor's report (e.g., going concern). The purpose of these efforts would be for the IAASB to determine

whether its objectives in relation to transparency are achieved or whether alternative or complementary approaches may be necessary.

Agree, with comments below

We agree that the proposals in ED-240 may enhance transparency in the auditor's report about matters related to fraud, when applied effectively by the auditor. More specifically, in principle, we consider the proposal to use the Key Audit Matters (KAMs) section of the auditor's report to be a reasonable and pragmatic solution to calls for the IAASB to increase transparency about fraud-related matters rather than a separate section of the auditor's report. In our view, a separate section can give rise to extensive, boilerplate, high-level descriptions about the approach to fraud in an audit that are neither entity specific nor useful to users of the financial statements. For example, experience in European jurisdictions, where the auditor is required to describe the extent to which the audit is capable of detecting fraud, has been mixed, and in most cases, this has often resulted in boilerplate language that adds little value. We note that under extant ISA 240, when significant fraud-related matters meet the criteria set out in ISA 701, these would be expected to be reported as KAMs today. Therefore, this change simply codifies and reinforces those judgements.

CohnReznick

Agree, with comments below

We are supportive of the IAASB's efforts to increase transparency in the auditor's report regarding the auditor's fraud-related responsibilities and procedures. However, we have concerns regarding the proposed requirements. We believe that ISA 701 is sufficient without the addition of the proposed fraud-related Key Audit Matters requirements. When significant fraud-related matters meet the criteria set out in ISA 701, such matters would be expected to be reported as KAMs today.

We do not support the proposal to rename the Key Audit Matters section of the auditor's report to "Key Audit Matters Including Matters Related to Fraud." We are concerned that this change may be misleading to users and overemphasize a discussion about "fraud responsibilities and procedures" at the expense of discussing other procedures that may have been performed by the auditor to address material misstatements due to "error" and the concept of "fair presentation." The proposed title may also leave readers with the impression that a material fraud was identified or suspected fraud in every financial statement audit, even in situations when that was not in fact the case. This in effect will result in reintroducing standardized or "boilerplate" language into the auditor's report.

We recommend that the IAASB consider retaining extant the title "Key Audit Matters" for the auditor's report and consider providing application guidance to help guide auditors on when a fraud-related matter should be disclosed as a "key audit matter." Under our proposed approach, such fraud-related key audit matters could be disclosed under a suitable subtitle that explicitly include the word "fraud." This approach will build on the scalability that is already built into the Proposed Standard. For example, at paragraph ED-260.55, we suggest that the IAASB expand on whether each element of the requirement should be applied for every identified fraud or suspected fraud, including those that are clearly inconsequential.

In addition, we are concerned that the expanded discussion about fraud in the auditor's report may over time become "boilerplate" in nature and will not be useful to financial statement users and other stakeholders.

7. Member Bodies and Other Professional Organizations

Korean Institute of Certified Public Accountants

Agree, with comments below

The KICPA agrees that the ED may enhance transparency appropriately about the matters related to fraud in the auditor's report. However, we have concerns about describing KAMs as outlined below.

Revised ISA 701 modified the naming convention for the section which includes Key Audit Matters to "Key Audit Matters Including Matters Related to Fraud". The ED-240 prescribes that if the auditor determines that there is no KAM related to fraud to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor's report.

This proposed revision is considered to make the user of the auditor's report more likely to misunderstand that the objective of audit includes the detection of fraud. In other words, it is likely to further broaden the expectation gap regarding the auditor's responsibility for fraud between the user of the auditor's report and the auditor. In particular, this is highly likely to create misconception that the auditor gives additional assurance that no fraud has occurred, by stating that there is no KAM related to fraud when there is none.

In many jurisdictions including Korea, applicable laws and regulations require the auditor to communicate any material fraud identified to TCWG while also requiring TCWG or the auditor to report the outcome of fraud investigation to the regulator. If more matters related to fraud are presented in KAM section, it is likely to create confusion due to unclear relationships between KAM and legal liabilities. For example, TCWG and the auditor may face challenges in classifying the matters related to fraud into significant ones to present in KAM and other ones to report to the regulator. They may also feel pressure because presenting matters related to fraud in KAM may lead to legal liabilities, resulting to increase in unnecessary fraud investigation.

In addition, some expressed views that more disclosure of audit procedures performed in response to fraud may undermine the unpredictability of audit procedure.

In this regard, we propose that the naming of the KAM section should remain as 'Key Audit Matters'. If any KAM related to fraud needs to be included in the auditor's report, we propose integrating those KAMs related to fraud in the Key Audit Matters section as proposed by the ED, but clearly signal in the subheading that 'the KAMs relate to fraud'. If there is no KAM related to fraud, we propose that no such statement should be included.

Virginia Society of Certified Public Accountants

Agree, with comments below

Specifically, the three options for reporting KAMs related to fraud offer greater clarity and transparency. This requirement will allow the auditor to place additional emphasis on KAMs related to fraud and help direct stakeholders' attention to matters specifically related to fraud.

Botswana Institute of Chartered Accountants

Agree, with comments below

The ED- 240 does appropriate it enhance transparency about matters related to fraud in the auditor's especially through conforming amendments to the illustrative auditor's reports in the appendix of ISA 700 (Revised) and other ISAs for the amendments to paragraphs 40(a) and 40(c) of ISA 700 (Revised) and ironing out how KAM relating to fraud will be presented in the audit report and communicated to those charged with governance.

CPA Ontario Small and Medium Practices Advisory Committee

Agree, with comments below

The EM discusses how ED-240 aims to improve transparency by requiring auditors to explicitly address fraud in the auditor's report when significant issues are identified. This includes disclosing key audit matters that relate to fraud or significant risks of material misstatement due to fraud.

It also stresses the importance of communication with those charged with governance about fraud findings, ensuring that they are well-informed of any fraud or suspected fraud identified during the audit and the implications it might have on the financial statements and the audit itself.

The auditor must communicate key audit matters related to fraud and include in the auditor's report a description of the auditor's responsibilities regarding fraud in the audit of financial statements. These disclosures are designed to provide a clear understanding to users of the financial statements about the extent of the auditor's efforts in identifying and addressing fraud.

The ED also clarifies the auditor's responsibilities concerning fraud, ensuring that the auditor's report communicates these duties comprehensively. This helps set appropriate expectations among stakeholders about what an audit can and cannot achieve in terms of detecting fraud.

These enhancements to transparency in ED-240 are intended to provide greater clarity and reassurance to users of financial statements about the auditor's role and findings regarding fraud. By requiring detailed disclosures in the auditor's report related to fraud, the standard aims to strengthen stakeholder trust in the audit process and the credibility of the financial reporting.

Institute of Chartered Accountants of Sri Lanka

Further, reporting on fraud or suspected fraud as a key audit matter may result in unwarranted implications (e.g. negative impact to the entity if it is not actually a fraud).

Agree, with comments below

More reporting examples under ISA 701 will be helpful to address the matters determined in accordance with para 61 of the exposure draft.

Institute of Certified Public Accountants of Uganda

Agree, with comments below

We believe that the ED-240 appropriately enhances transparency about matters related to fraud in the auditor's report. We are particularly appreciative of the requirement for auditors to include a statement about the absence of key audit matters related to fraud when required. To ensure that the desired enhanced transparency in the standard is achieved, We suggest a post-implementation review of the proposed requirements for enhanced communication of fraud-related auditor responsibilities in the auditor report be conducted.

Asociacion Interamericana de Contabilidad

Agree, with comments below

Yes, ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report. It establishes clearer requirements for auditors to communicate key fraud-related matters in their report, including the nature and extent of specific audit procedures applied to address identified fraud risks. In addition, it encourages discussion of fraud-related findings and how significant have influenced of the auditor's opinion. This approach promotes greater transparency and provides users of the financial statements with a

deeper understanding of the areas of concern and the auditor's performance in addressing the risk of fraud, which contributes to reliance on the auditor's report and the audited financial statements.

Pan-African Federation of Accountants

Agree, with comments below

We agree with the need for enhanced transparency about the auditor's responsibilities related to fraud, because of the public interest and user demand. Despite this, we have concerns as to whether the proposed KAM requirements in ED-240 will achieve this transparency. Other concerns include: the practicality of reporting on fraud related KAM specifically, when investigations are ongoing, and the outcome is uncertain. This could lead to difficulties in determining what to report and how to report it. This may further attract litigations against the auditor in instances where there are grey areas or uncertainties. We recommend the development of clear boundaries on the level of suspicion that is reasonable for a suspected fraud to be considered as a KAM to promote consistent treatment of suspected fraud for example, requiring that at minimum there must be an open investigation. This could assist with balancing the public interest need for transparency and the auditor's reputational risk if the suspicion is unsubstantiated.

There is a concern that users of the audit report, especially those without a financial background, might misinterpret the fraud-related KAM as an assertion that this is a legal determination by the auditor even if the matter is still under review or investigation, which could further increase the expectation gap between users and auditors.

We agree with the view that elevating the reporting requirement for auditors without an equal elevation of reporting requirements for directors or those charged with governance may contribute to the current public perception that the auditor is responsible for the identification of fraud (widening the expectation gap). We therefore recommend that the IAASB consider including a requirement (where jurisdictionally relevant or applicable) to state in the management responsibility paragraph what management's governance requirements are related to fraud prevention and detection to better balance the reporting responsibilities in the auditor's report for example, identifying the legal requirements and / or any formal control frameworks being applied by management. This may be achieved through adapting the requirements in ISA 700 (Revised) paragraph 34. Recognising that the governance requirements are mainly prescribed in law and regulation this may have the added benefit of encouraging jurisdictional changes to laws and regulations to drive enhanced corporate governance requirements and practices.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Agree, with comments below

We agree with the enhanced transparency on the auditors' responsibilities to communicate with TCWG regarding (i) identified fraud or suspected fraud; and (ii) other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of TCWG. While the auditor plays a role in the prevention and detection of fraud, the primary responsibility for prevention and detection of fraud rests with both TCWG of the entity and management. The proposed clarification on the auditor's fraud-related responsibilities (Paragraph 40(a) of ISA 700 (Revised)) in the auditor's report may widen the expectation gap on who has the primary responsibility over the prevention and detection of fraud. We would like to suggest the IAASB add clarity or enhance the paragraph in ED-240 on "Responsibilities of Management and TCWG".

The proposal to use the KAMs section of the auditor's report to increase transparency about matters related to fraud is reasonable, and preferable than a stand-alone section of the auditor's report.

However, we would suggest the IAASB to continue to use the existing naming convention “Key Audit Matters”. It is not necessary to modify the naming convention to “Key Audit Matters Including Matters Related to Fraud”. Doing so might give the wrong impression that the auditor has a dedicated task to detect fraud in the audit and must include fraud discussion under key audit matters. This might deepen the already existing misconception on the role of auditor over fraud.

The requirement in paragraph 64 of ED-240 may further increase the expectation gap. The statement that there are no KAMs related to fraud may be misconstrued as a guarantee that there is no fraud and is in contradiction with the inherent limitations of an audit as described in paragraphs 10-11 of ED-240. As such, we recommend that this requirement be removed.

In addition, it would be helpful for the IAASB to include illustrative examples of KAMs that have a fraud element.

8. Academics

Accounting and Finance Association of Australia and New Zealand

Agree, with comments below

We believe that ED-240 (and proposed conforming and consequential amendments to ISA 700 and ISA 701) do have the potential to enhance transparency but are of the view that the IAASB should temper expectations as to the extent of any enhancement and consider the potential costs of the proposed changes. Research is mixed, but suggests that improve transparency, if any, will likely be small.

We note that beyond the requirement to disclose fraud related matters that must be discussed with those charged with governance, the major change introduced with the aim of improving transparency is Key Audit Matters relating to fraud. Church et al. (2008) notes that improved disclosures in the auditor’s report could enhance the quality of communication between the auditor and users, but ISA 701 limits the ability of auditors to provide information that is not already known (for example see paragraphs A34 and A35) and auditors have little incentive to disclose information in KAMs that would improve transparency (see Minutti-Meza 2021 for a discussion). We encourage the IAASB to consider enhanced application material encouraging sufficient detail in fraud KAMs.

Research on the information content in, and user reactions to, the reporting of Key Audit Matters (KAMs) or Critical Audit Matters (CAMs) reports mixed results (Minutti-Meza 2021; Burke et al. 2023; Lennox et al. 2023; Seebeck and Kaya 2023). For example, Czerney et al. 2019 find that investors do not react to the explanatory language in US, audit reports because they were already privy to the information. However, some experimental research evidence suggests that investors may perceive auditor-provided information as more credible and react to KAM disclosures (Christensen et al. 2014; Elliott et al. 2020).

KAMs may provide useful information on the audit client (e.g., Camacho-Minano et al. 2024), may enhance audit quality (e.g., Li et al. 2019; Espahbodi 2023), and may motivate improved corporate disclosure (e.g., Burke et al. 2023), so fraud KAMs should not be discounted as a means of improving confidence in capital markets, but the extent to which KAMs enhance transparency (the stated objective of the revisions) is unclear. We also note research highlighting that KAMs might not impact on audit quality (e.g., Lennox et al. 2023) and research examining the impact on audit fees of requiring KAM disclosures (which reports mixed results) (e.g., Li et al. 2019; Reid et al. 2019; Al-Mulla and Bradbury 2022).

Minutti-Meza (2021) reflects on the relationship between significant examples of management misconduct in the UK in the late 2010s and the KAMs that were reported in the Auditor’s Report at the time. He concludes that the language used in KAMs is unlikely to be such that the user would be alerted to the risk of irregularities.

It will be important, therefore, that users are prompted to consider fraud when reviewing KAMs. The IAASB's proposal to amend the headings to reinforce the fraud related implications of the KAM may help in this regard, but this may draw attention away from other core messages contained in the Auditor's Report and the risk that 'boilerplate' language will attenuate any benefits remains.

Moroney et al. (2021) highlight the risk that KAMs may draw attention away from other messages that are considered core elements of the Auditor's Report and Sirois et al. (2018) find that KAMs may direct attention away from non-KAM related disclosures in the financial statements. This is likely to be especially the case when mention is made of such an emotive term as 'fraud'. Moreover, there is a risk that KAMs relating to fraud may become standardised / boilerplate (e.g., Brasel et al. 2016). Research to date highlights that there is some variability in the linguistic characteristics of KAMs (Zeng et al. 2021; Li 2022; Smith 2023), somewhat alleviating concerns around boilerplate disclosures. However, we note that the impact of disclosing that there are no fraud related KAMs on auditor judgments is presently unclear and standardised KAMs may be drafted (perhaps around revenue recognition or management override of controls) that relieve the auditor of having to say that there are no fraud KAMs, and to minimise potential liability that this may give rise to. In this regard, Kachelmeier et al. (2020) find that the potential for KAMs to forewarn of issues, and the perception that KAMs may disclaim auditors of responsibility, may lead auditors to be predisposed toward reporting KAMs. In addition, we note research highlighting that CAMs can reduce perceptions of auditor culpability when the auditor fails to detect fraud (Brown et al. 2020). By comparison, there is research highlighting that KAMs have the potential to increase assessments of auditor negligence (Gimbar et al. 2016).

We believe that, on balance, the detail that auditors report in fraud KAMs is likely to be limited, thereby limiting any improvements in transparency. We encourage the IAASB to consider further application material encouraging information relevant fraud KAMs.

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9. Individuals and Others

Altaf Noor Ali Chartered Accountants

R5: Yes.

5.1 Length of auditor's report>> Its positive to find space in the auditor's report for the fraud and its communication (and going concern); It's the length of the clean report. We have generally observed loss of user understandability because of the volume of disclosures in the financial statements and the time pressures of users.

In Pakistan, our majority is unable to understand the financial statements and the role of the auditor in it. The auditor's report (or financial statements) is not in our national language.

5.2 Incompatible?>> We agree with the Board that the primary purpose of an audit is not to test an entity's internal control. However, is it a purpose of an audit? If no, why in so many jurisdictions the auditor is required by law to give a separate report on the internal controls relating to financial reporting to be in order? Is it an example or an exception of thinking about the auditor between the Board and national regulators?

5.3 Undue Emphasis>> We are pleased that the Board avoided the trap of overemphasizing fraud. Integrating KAMs related to fraud with clear sub-heading (Key Audit Matters including matters relating to Fraud) is acceptable. We understand this sub-heading will be used when required, not as a matter of routine.

5.4 What if KAM not required by law?>> We note that reporting of Key Audit Matters is required for the listed entities in Pakistan only. Whereas we consider entities smaller in size and nature of ownership to be relatively high-risk. How the fraud is to be reported in case KAM are not required by law?

The auditor's report for entities other than listed companies in its present form is exempted from reporting KAMs. With inherent high-risk present in all entities this does not sound too good.

Albert Bosch

Agree, with comments below

I expect the Dutch institute for auditors (NBA) will respond to this and share what has already been implemented in The Netherlands.

Q05 Neither agree nor disagree

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

Auditor's report

In our January 2021 letter we expressed the view that, to increase transparency, the IAASB should require the auditor to explain the extent to which the audit was considered capable of detecting fraud in the auditor's report and that, at a minimum this should be required for PIE audits, as required by European Union legislation. We remain of this view and recommend that the IAASB consider including this requirement in the final version of the standard.

Key audit matters (KAMs)

The CEAOB supports paragraph 63, which requires an appropriate subheading in all audit reports regarding fraud related KAMs. In our view, fraud related matters should always be highlighted in the KAMs, particularly given the public interest in and heightened stakeholder expectations regarding entities that are required to apply ISA 701.

The CEAOB also support the proposal that the auditor shall include a statement when no specific KAMs related to fraud have been identified. However, we do not support the content of paragraph A175 (and A57 in ISA 701) which sets out 3 circumstances in which this statement can be made. "The auditor determines ... that there are no KAMs regarding fraud" should only arise in exceptional situations and so should not be included in this paragraph.

We also recommend strengthening paragraph A176 which states: "it may be rare that the auditor of ... a listed entity would not determine at least one key audit matter related to fraud". Based on our inspection experience, this situation is unfortunately not 'rare' in practice. Additional clarity is thus needed in both ISA 240 (for example

in paragraph 64 and the related application material) and ISA 701 that fraud risks should be disclosed in the KAMs and that disclosing no key audit matters in relation to fraud is the exception.

ED 240 and ISA 701 leave room for interpretation regarding whether fraud risks are risks that require significant auditor attention or not. For example:

Paragraph A168 of ED 240 states ‘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 62.’

Paragraph A21 of ISA 701 states ‘The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention’.

This application material seems to imply that some fraud risks do not need significant auditor attention. We think that this is a wrong signal to auditors and ask the IAASB to remove this from both ED 240 and ISA 701.

We note that there is a lot of overlap between ED 240 and ISA 701 on the responsibilities and procedures in the Auditor’s Report. We suggest that the IAASB should review the application material in ED 240 to ensure it is fully consistent with ISA 701. Otherwise, there

is a risk that these paragraphs may give rise to confusion and leave too much room for interpretation rather than providing clarification.

A number of countries already require reporting on fraud in the auditor’s report. Early experience indicates that, while fraud risk and procedures performed by the auditor are communicated, relevant findings and conclusions about fraud risk are not. The IAASB should consider whether auditors should be required to report findings related to fraud, including findings and conclusions regarding fraud risk, and how to discourage the use of boilerplate text by auditors in this area.

Independent Regulatory Board for Auditors – South Africa

Given that management and those charged with governance are responsible for the prevention and detection of fraud, wouldn’t it be important to also consider if the matter required significant attention by management or those charged with governance (as opposed to just significant audit effort), as the auditor is unlikely to drive the investigation and mitigation of fraud or suspected fraud? Could this not also be a consideration for the selection of fraud related KAMs?

Proposed enhancements to the director’s responsibilities paragraph in the auditor’s report (ISA 700 (Revised)) to further support transparency of fraud-related responsibilities in the public interest

We acknowledge the IAASB’s identification of the value that users place on insights about an entity’s internal control environment.

We observed that:

ISA 700 (Revised) paragraph 34(a) requires the auditor’s responsibilities paragraph to describe management’s responsibility for:

Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

ISA 700 (Revised) paragraph A45 acknowledges there may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance

in paragraphs 34–35 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.

The Illustrations of Independent Auditor’s Reports on Financial Statements in ISA 700 (Revised) includes the standard director’s responsibilities paragraph but does not explicitly acknowledge this allowance in ISA 700 paragraph A45.

In the interest of enhanced transparency on jurisdictional requirements about fraud-related responsibilities in the preparation of the financial statements, we propose that paragraph A45 be elevated to a requirement in ISA 700 (Revised) paragraph 34 and explicitly acknowledged in the Illustrations. In addition, it can also benefit from being enhanced to include consideration of both required and voluntary adopted recognised governance frameworks in local jurisdictions. In South Africa such provisions may include the Johannesburg Stock Exchange (JSE) Listing Requirements and the King IV Code on Corporate Governance.

Because IFRS does not require directors to report on fraud-related matters in the financial statements, this requirement to add to the descriptions of the responsibilities of management and those charged with governance where appropriate based on jurisdictional requirements, may encourage transparency and have the added benefit of driving jurisdictional changes to laws and regulations to support enhanced corporate governance requirements and practices.

Encouraging the IAASB to consider proposed enhancements to the director’s responsibilities paragraph in the auditor’s report (ISA 700 (Revised)) to further support transparency of fraud-related responsibilities in the public interest.

Neither agree/disagree, but see comments below

We agree with the need for enhanced transparency about the auditor’s responsibilities related to fraud, because of the public interest and user demand.

Despite this, we have reservations about whether leveraging the ISA 701 KAM requirements for listed entities will achieve the desired transparency.

There are multiple practical challenges in determining the Fraud-related KAM population and applying the filtering mechanism like the one used to communicate KAMs in ISA 701. Additionally, the challenges that prevented auditors from reporting Fraud-related KAMs under ISA 701 may still remain. Therefore, there is a risk, if these issues remain unresolved, that the new fraud-related KAM requirements may still result in no or limited KAMs being reported by the auditor which still won’t fully achieve the public interest objective. We look forward to how the IAASB would resolve these issues.

We commend the IAASB for the extensive exploration, outreach, and consideration of multiple solutions to aim to improve transparency. Because of the importance of transparency, we would support the IAASB’s reconsideration of previously proposed options that may be easier to implement and therefore more likely to enhance transparency in the auditor’s report.

Additionally, we propose that transparency of fraud-related responsibilities in the public interest may be further supported through enhancements to the director’s responsibilities paragraph in the auditor’s report.

Our comments below elaborate on these points.

Challenges with determining the population for fraud-related KAMs.

ED-240 paragraph 61 identifies the starting point for the determination of KAMs as “matters related to fraud communicated with those charged with governance”, however this may unintentionally exclude:

Matters communicated by / from management or those charged with governance. We propose enhancing this requirement, in line with the IAASB's objective to enhance communication requirements with management and those charged with governance, to emphasise the two-way exchange of fraud-related information between the auditor and those charged with governance by using a phrase like "matters related to fraud communicated between those charged with governance and the auditor" instead. This will enable inclusion of all fraud-related matters communicated between these parties into the KAM population as a starting point. This enhancement does not necessarily change the work effort, but what it does achieve is ensure that the population of matters communicated by management or those charged with governance to the auditors is not excluded from potential KAMs.

Matters that have not been communicated with those charged with governance because the auditor suspects that management or those charged with governance are involved in the suspected fraud. Therefore, consideration should be given as to how matters that may be significant but have not been explicitly communicated could be included in the fraud-related KAM population.

Acknowledging the challenge identified by the IAASB in helping the auditor to identify when and what to report, how would the auditor determine what level of suspicion will be reasonable for a suspected fraud to be included in the KAM population?

Potentially reporting unsubstantiated claims to the public may have other unintended consequences, such as creating public doubt about management or those charged with governance's integrity prematurely.

Enforcing this may be equally as challenging because in the absence of the legal determination of fraud. How can this evaluation be performed and reperformed consistently?

Challenges with identifying fraud-related matters that required significant auditor attention.

4. Jurisdictional and National Auditing Standard Setters

Saudi Organization for Chartered and Professional Accountants

Neither agree/disagree, but see comments below

Although the proposed requirements in ED-ISA 240 enhance transparency, there is a high risk that this could expose auditors and the audit profession to unintended consequences. The proposed revisions in ED-ISA 240 emphasize on the idea that it is the responsibility of management and those charged with governance to prevent and detect fraud and maintain the compliance with the applicable laws and regulations. And the auditor should consider the risks of fraud or suspected fraud and assess their materiality and their impacts on the audit process, including whether to continue the audit engagement or not; and the proposed revisions in an acknowledgement of auditors' scope of expertise emphasized on consulting a legal counsel and other experts with relevant expertise. Accordingly, auditors' communication of such material fraud or fraud suspected issues to the appropriate level of management or those charged with governance, or authoritative bodies (if applicable and aligned with the confidential principle) might be considered sufficient to serve the interest of the stakeholders. Disclosing such matter whether in a statement or under specific subheading in the audit report may result in unintended consequences including increasing the complexity of audit-client relationship in a harmful way, exposing auditors to unbearable liability risks, increasing the audit costs (audit fees), and blur the understanding of the auditor's responsibility. For instance, the application material (A173) stressed on the idea that auditors should "avoid standardized or generic" language when describing material fraud issues as a Key Audit Matter (KAM), and encouraged more reliance on describing the specifics in order to make the information more relevant to the intended users. This may eventually result in unintended legal consequences. At the same time, it is left to auditors to obtain legal consulting regarding their approach to

assess, respond and report with regard to fraud risks. Therefore, more illustrations are needed to consider and explain the expanded responsibilities associated with such reporting requirements. For instance, the proposed application material (A176) presumes that an auditor of a listed entity would normally be expected to consider at least one KAM related to fraud.

Taking into consideration our comment on question number 4, the proposed application material (A178) explains that an auditor should utilize professional judgment to assess whether including a statement about fraud issues in the audit report would outweigh the public interest benefits or not. This idea might be difficult to be operationalized in practice, more illustration may help.

5. Accounting Firms

RSM International

Neither agree/disagree, but see comments below

ED-240 appears to effectively apply a fraud lens to the requirements in ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, and we support using ISA 701 as a base to determine key audit matters (KAMs) related to fraud. We also acknowledge that, currently, these requirements would be required for listed entities.

Per ISA 701, a KAM is defined as:

Those matters that, in the auditor's professional judgment [sic], were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. [emphasis added]

Consistent with paragraph A29 of extant ISA 701, paragraph A170 of ED-240 emphasises that one of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention and whether such a matter is a key audit matter is the importance of the matter to intended users' understanding of the financial statements as a whole. However, this paragraph goes on to indicate that there would ordinarily be at least one KAM related to fraud, as users of financial statements have highlighted their interest in matters related to fraud. The consequential amendment to paragraph A21 of ISA 701, also seems to suggest that there would ordinarily be at least one KAM related to fraud.

This would appear to increase the weight that auditors should place on the importance of the matter to intended users' understanding of the financial statements as a whole and could be interpreted as the auditors needing to determine if a matter is a KAM related to fraud from the users' perspective. However, as noted above, the definition of a KAM states that the auditor's professional judgement should determine if a matter is a KAM, including those related to fraud, and not necessarily from the users' perspective. We believe this is a critical difference and, therefore, may add to the confusion of users about what a KAM actually is.

Although the importance of the matter to intended users' understanding of the financial statements as a whole is a consideration that may be relevant, it should not always be a primary factor as suggested by paragraph A170 of ED-240. We believe auditors should continue be able to use professional judgement in making the determination if there is a KAM related to fraud. Because management override of controls is a risk of material misstatement due to fraud in accordance with paragraph 41 of ED-240, and there is a presumption of a risk of material misstatement due to fraud in revenue recognition in accordance with paragraph 40 of ED-240, we are concerned that auditors may use one of these risks as a KAM related to fraud even if it does not meet the criteria in paragraphs 61 and 62 of ED-240. This may diminish the significance of KAMs related to fraud and, thus, add no value to the auditor's report.

Without agreeing with paragraph 64 of ED-240, we acknowledge that it requires the auditor to include a statement in the auditor's report when there are no KAMs related to fraud to communicate. Thus, the requirement suggests that there may be cases where the auditor, exercising its professional judgment, determines that none of the matters related to fraud are KAMs. Accordingly, we recommend the IAASB to clarify this point and amend paragraph A170 of ED-240 and the consequential amendment in paragraph A21 of ISA 701. In addition to the concerns noted above, we do not agree with paragraph 64 of ED-240. Including in the auditor's report a general statement that there were no KAMs related to fraud contradicts the purpose of communicating KAMs (i.e., providing additional information to intended users to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements). If there is not an explicit KAM related to fraud, we believe the auditor should not make any statement in that respect. We also believe that such a statement could have unintended consequences on an auditor's credibility and their professional liability if a fraud is later identified and is related to a period where there is a statement in the auditor's report that there were no KAMs related to fraud to communicate. Rather than requiring the auditor to include a statement in the auditor's report when no KAMs related to fraud were identified to communicate, we recommend the IAASB consider adding application material with factors and guidance to help the auditor determine if a KAM related to fraud would be required.

Furthermore, we believe the language in paragraph A173 of ED-240 should be strengthened to avoid generic or standardized language in KAMs. We, therefore, suggest the following revision:

A173. 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. For example, revenue recognition or management override of controls may be regularly determined as key audit matters related to fraud. In describing why the auditor considered the matter to be one of most significance in the audit, it may be useful for the auditor may to 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 also may be 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, it may be useful for the auditor may to highlight matters directly related to the specific circumstances of the entity, while avoiding generic or standardized language.

6. Public Sector Organizations

Provincial Auditor Saskatchewan

We have two concerns with the proposed amendments to the auditor's reports resulting from changes to ISA 240:

The proposed amendment in ISA 240 paragraph 64 and paragraph A177 requires the auditor to include a specific disclosure where they determine there are no key audit matters related to fraud. This is inconsistent with other key audit matters where the auditor does not have to specifically comment on their decision to exclude matters. Also, including this statement without any context may be misinterpreted by readers of the auditor's report and could be seen to imply that the auditor is responsible to detect fraud and did not find any fraud.

The consequential amendments to ISA 700 paragraph 40(a)(ii) requires the auditor, for all audits, to state that they communicate with those charged with governance "regarding...any: (ii) identified fraud or suspected fraud." Including this statement may be misinterpreted by readers of the auditor's report to imply that the auditor is responsible to detect and communicate all fraud or suspected fraud which is not the case as the

auditor may not be aware of and is not responsible to detect all fraud. This should be clarified to be clear that this is fraud or suspected fraud that the auditor became aware of during the audit.

Government Accountability Office – United States

In addition, we have concerns about the implications of paragraph A174, which also refers to ISA 701 paragraph A37. These paragraphs note that one of the potential results of the required key audit matters (KAMs) will be that management will include new or enhanced disclosures in the financial statements or annual reports about the KAMs' subject matter. Such additional reporting may be desirable. However, if report users have communicated that they need "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" (paragraph A174), then there should be direct efforts to require such disclosures in the applicable financial reporting frameworks. We do not believe that it is appropriate to attempt to effect changes in generally accepted accounting principles through KAMs.

While we support the concept of including reporting on matters related to fraud in the auditor's report, we do not use key audit matters (KAM) as part of the reporting structure in our jurisdiction for fraud. Generally accepted government auditing standards (GAGAS) has specific requirements to report on fraud that is material, whether quantitative or qualitative. However, these reporting requirements differ from those proposed in ED-240 paragraphs 61 through 64. We believe requiring auditors to include a section of KAMs specifically devoted to fraud is problematic. First, a discussion of certain fraud risk factors and identified and assessed risks of material misstatement due to fraud may not be understood by all report users, particularly less sophisticated users. Further, fraud could still exist even if there are no KAMs related to fraud to communicate from a properly planned and executed audit. In such instances, users may misinterpret the implications of a statement such as that required by paragraph 64.

We also have concerns about the implications of paragraph A174, which refers to ISA 701 paragraph A37. These paragraphs note that one of the potential results of the required KAMs will be that management will include new or enhanced disclosures in the financial statements or annual reports about the KAMs' subject matter. Such additional reporting may be desirable.

However, if report users have communicated that they need "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" (paragraph A174), then there should be direct efforts to require such disclosures in the applicable financial reporting frameworks. We do not believe that it is appropriate to attempt to effect changes in generally accepted accounting principles through KAMs.

7. Member Bodies and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

Neither agree/disagree, but see comments below

We are generally supportive of improving transparency in matters relating to fraud in audit reports where this provides useful information to users and serves the public interest. That said, we believe some of the requirements proposed in ED-240 could be problematic.

Inclusion of key audit matters (KAMs) regarding fraud in every report or requiring disclosing that there are no such KAMs in every report could encourage boilerplate disclosure. This reporting may also congest the audit report with information that detracts from other more important matters. We also fear that the reporting of suspected fraud in the audit report could expose auditors to accusations of false reporting if such suspicions are not subsequently validated. Furthermore, if there are no KAMs related to fraud then this may be

misinterpreted by users as the auditor signing off that there is no fraud. In so doing, this might widen the expectation gap. Overall, we question the effectiveness of auditor reporting, and auditing standards in general, to meaningfully address fraud.

Malta Institute of Accountants

Neither agree/disagree, but see comments below

ISA 701 already regulates KAM. Hence, this area is already catered for by ISA 701.

9. Individuals and Others

Colin Semotiuk

Overall, we agree with clarifying key audit matters related to fraud and as stated in EM paragraph 71, “Option 3: Integrate the KAMs related to fraud in the Key Audit Matters section but clearly signal in the subheading that the KAMs relate to fraud.”

However, we disagree with EM paragraph 73 and ED A168, which states, “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.” The issue with this is that in our experience and based on public reporting available, the actual occurrence of fraud is very rare and in order to perform an effective and efficient audit, an auditor must assume that management and TCWG is trustworthy and not criminal. Therefore, it is not “often” for auditor’s to be required to spend significant auditor attention.

Not only does this demonstrate that ED-240 decouples ISA-240 from responsibilities of an auditor of financial statements to auditing fraud, it also increases risk to the assurance profession. Users of ISA auditor reports will incorrectly conclude that financial statement audit’s include assurance that there is no fraud, which is incorrect, as well as not practical. Once a fraud occurs, these auditor’s will then be seen as being primarily responsible for not detecting the fraud and increase exposure to lawsuits.

4 Disagree

3. Regulators and Audit Oversight Authorities

Financial Reporting Council – United Kingdom

Disagree, with comments below

We support the proposed requirements where fraud is a ‘key audit matter’ and the links to ISA 701. However, there should also be a link to paragraph 13 of ISA 701, including to be clearer that the description of the key audit matter shall address why the matter was considered to be one of most significance in the audit and how the matter was addressed in the audit. The application material in paragraph A174 relates in part to paragraph 13 of ISA 701, although there is no explicit cross reference, but we are concerned that, as written in the ED, it could facilitate ‘boilerplate’ descriptions by suggesting that, in describing why the auditor considered the matter to be one of most significance in the audit, it “may” be useful for the auditor to highlight aspects specific to the entity; and, in describing how the key audit matter related to fraud was addressed in the audit, it “may” be useful for the auditor to highlight matters directly related to the specific circumstances of the entity while avoiding generic or standardized language. To address this, the application material should be amended to clarify that the description is not intended to be ‘boilerplate’, but should be specific to the circumstances of the audited entity and take account of how the auditor planned and performed procedures to address the identification and assessment of the risks of material misstatement.

4. Jurisdictional and National Auditing Standard Setters

Wirtschaftsprüferkammer

Furthermore, an explicit statement that “there are no key audit matters related to fraud to communicate” as suggested in paragraph 64 of ED-240 might be misleading and increase the expectation gap. Such statement is considered the more problematic in the light of the provision in A175 of ED-240 that it is also to be included in the auditor’s report if the auditor determines not to communicate a key audit matter related to fraud in accordance with paragraph 14 of ISA 701, i.e. when law or regulation precludes public disclosure about the matter or if, in extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor’s report because of the potential adverse consequences. In contrast, intended users may understand the phrase “there are no key audit matters related to fraud to communicate” in a way that no fraud or fraud-related matters have been identified.

We do not agree that ED-240 will enhance transparency about matters related to fraud in the auditor’s report.

While we agree that fraud-related matters shall be addressed as key audit matters if they are actually considered as such in accordance with ISA 701, we believe that the requirements of ED-240 will result in a situation that each auditor’s report issued on audits to which ISA 701 applies will include a statement relating to fraud in the key audit matters because this will become the overall expectation.

American Institute of Certified Public Accountants

Disagree, with comments below

The ASB continues to believe that any changes to the auditor’s report should enhance the information provided and address the expectation gap between financial statement users and auditors; enhance audit quality; and establish reporting requirements that are also clear with regard to management’s responsibility as the original source of entity-specific information. Our comments have been developed with these principles in mind.

We recognize the effectiveness of providing a fraud lens to using KAMs to communicate fraud-related matters. By using the KAM model the proposed requirements in ED-240 would be required for listed entities only. Because our purview is limited to audits of nonissuers, our response to this question does not address transparency matters related to listed entities. It is important to note that in the U.S., KAMs are not required nor has there been a call for KAMs to be included in the reports of nonissuers.

We are concerned that requiring KAMs for specific topics, irrespective of whether they genuinely represent key aspects of the audit, lacks usefulness and diminishes the overall purpose of KAMs. Moreover, we disagree with requiring a statement in the auditor’s report that no fraud KAMs were identified because such a statement may be misunderstood by financial statement users as providing an opinion specifically related to fraud.

If the IAASB proceeds with specific requirements for reporting fraud-related KAMs, we believe such requirements are better placed in ISA 701, rather than ED-240, to streamline the reporting process and ensure consistency across audit engagements. Further, it will reduce confusion about whether a separate assessment for fraud-related KAMs is required; rather, it should be integrated into the auditor’s overall consideration of KAMs. Therefore, we recommend removing paragraphs 61-64 and its related application material from ED-240 and moving the requirements and application material into ISA 701 and refer users to ISA 701 in proposed ISA 240(Revised). For example, the matters related to fraud in paragraph 61 of ED-240 could be incorporated into paragraph 9 of ISA 701.

Given other current IAASB projects that propose revisions to the auditor's report (i.e. going concern and public interest entities (PIE)), we encourage the IAASB to undertake a project to holistically evaluate the cumulative impact and usefulness of all proposed changes to the auditor's report. One of the more effective ways of doing this is to work with experts who can assist the IAASB with performing a "controlled language experiment" to evaluate the potential effects of the proposed changes in the auditor's report. This outreach will provide important insights into whether the proposed changes are likely to achieve their intended objectives. The ASB has gained significant experience with this type of research over the past year and we would be pleased to share our experiences with the IAASB.

Transparency in the Auditor's Report and Related ASB Outreach

In the summer of 2022, the ASB surveyed financial statement users and preparers in the U.S. to obtain their perspectives on the content of the auditor's report and transparency related to fraud in the auditor's report. The survey was distributed to multiple groups and 134 complete responses were collected. The ASB also conducted interviews with U.S.-based financial statement users and preparers in the fall of 2022 to obtain additional insights related to these matters. Twenty-six individuals were interviewed.

The outreach found that 62% of survey respondents strongly agree, agree, or somewhat agree with the statement that "the content and length of the current version of the auditor's report is appropriate and no additional information is necessary." A not insignificant proportion, 17%, do not believe additions to the report are needed because the current report is "too long." The graph below also illustrates whether respondents believe changes to the auditor's report are needed.

We believe any changes to the auditor's report should enhance the information provided and address the expectation gap between financial statement users and auditors; enhance audit quality; and establish reporting requirements that are also clear with regard to management's responsibility as the original source of entity-specific information.

We are concerned that requiring Key Audit Matters (KAMs) for specific topics, irrespective of whether they genuinely represent key aspects of the audit, lacks usefulness and diminishes the overall purpose of KAMs. Moreover, we disagree with requiring a statement in the auditor's report that no fraud KAMs were identified because such a statement may be misunderstood by financial statement users as providing an opinion specifically related to fraud.

If the IAASB proceeds with specific requirements for reporting fraud-related KAMs, we believe such requirements are better placed in ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, rather than ED-240, to streamline the reporting process and ensure consistency across audit engagements. We also encourage the IAASB to evaluate the cumulative impact and usefulness of all proposed changes to the auditor's report from the fraud, going concern, and public interest entities (PIEs) projects.

See our further response to question 5.

Australian Auditing and Assurance Standards Board

Disagree, with comments below

On balance, in the public interest and to satisfy the needs expressed by users of financial statements for more transparency about matters related to fraud in the auditor's report, the AUASB supports enhanced transparency through key audit matter (KAM) style reporting in the auditor's report for listed entities about matters related to fraud. However, the AUASB believes that the IAASB should not proceed with the proposed requirements without addressing the following:

Replacing the heading ‘Key Audit Matters Including Matters Related to Fraud’ in the audit report with ‘Key Audit Matters (Including Matters Related to Fraud and Error)’ for consistency with the text that appears immediately after the heading. This will avoid over-emphasising the importance of fraud risk compared to risk of error.

Including appropriate examples in the application material demonstrating that fraud related KAMs are often interlinked with KAMs related to error (e.g. a KAM related to an estimate). Otherwise, KAM related fraud risks may always be treated as stand-alone KAMs, which may drive boilerplate statements.

Where there are no KAMs related to fraud, highlighting in the auditor’s report that the auditor’s objective is to obtain reasonable assurance that the financial report as a whole is free of material misstatement, whether due to fraud or error.

In due course, national jurisdictions should consider complementing greater transparency by the auditor with more transparency from directors around the responsibilities of management and TCWG in relation to the prevention and detection of fraud, including how the risks of material fraud have been identified and addressed.

Australian practitioners expressed concern that increased transparency in relation to fraud in the auditor’s report places undue focus on fraud and may increase the expectation gap. Some practitioners were concerned with possible litigation where a material fraud is later discovered but there was no KAM in the auditor’s report. Additionally, a fraud matter may still be under investigation at the time of the audit report and communicating the matter in a KAM could create legal risk for both the company and the auditor.

Australian practitioners expressed concern that some auditors could include boilerplate fraud related KAMs (e.g. on management override of controls) to avoid stating that there are no KAMs related to fraud to communicate.

Austrian Chamber of Tax Advisors and Public Accountants

Disagree, with comments below

While we recognize that the enhanced transparency in the auditor’s report is in the public interest, the existing KAMs mechanism in ISA 701 sufficiently covers fraud-related matters that were of most significant in the audit. In this regard, there is no added value in having a sub-section under KAMs specific to fraud. This may lead to confusion for the users of financial statements and widen the expectation gap with regards to the role of the auditor in addressing fraud.

Furthermore, the inclusion of fraud cases in the auditor’s report is a highly sensitive area that could be in conflict with legal confidentiality obligations. In most cases, fraud topics would be grouped under ISA 701.14 (Circumstances in which a matter classified as a material audit matter is not communicated in the auditor’s report), particularly because the adverse consequences of such a form of communication would reasonably be expected to outweigh the benefits in the auditor’s report public interest prevails. In many cases, the fraud is likely only suspected or not completely transparent. Therefore, the proposal to expand the KAM section by adding “including fraud matters” in the heading is extremely misleading and cannot be supported.

In particular, we point out that including an explicit statement that there are no key audit matters related to fraud is completely new and unusual. It is not the task of an auditor’s report to write about things that are not relevant and/or did not occur during an audit. This kind of KAM would create the risk of expanding the expectation gap to an unacceptable level. In addition, the communication of the absence of a KAM related to fraud in the auditor’s report could have the unintended consequence of having boiler plate texts that do not include any engagement-specific information. Such a communication will be interpreted differently by users

some of which may assume that no instance of fraud has occurred or been identified during the period covered by the financial statements.

Instituto Mexicano de Contadores Publicos

Disagree, with comments below

In our point of view, the standard specifically in the requirements set out in paragraphs 61 to 64 does not enhance transparency due to the variety of judgment and interpretations in the evaluation, procedures and conclusion over the fraud risks

Hong Kong Institute of Certified Public Accountants

Disagree, with comments below

Under the proposed ED-240 conforming amendments, the IAASB suggests including additional statements in the auditor's report:

Informing that the auditor has communicated with TCWG regarding identified or suspected fraud, as well as other fraud-related matters, if any, deemed relevant by the auditor (i.e. pages 147 and 148 of the Conforming and Consequential Amendments arising from Proposed ISA 240 (Revised)).

Stating that there are no key audit matters related to fraud to communicate if the auditor determines that, depending on the facts and circumstances of the entity and the audit, there are no key audit matters related to fraud to communicate. (i.e. ED-240.64)

However, by merely reading the new additional statements without explaining the context of those statements in the auditor's report, our stakeholders raised concerns that the expectation gap between the financial statements users and auditors might be widened as financial statements users may wrongly assume that auditors are solely responsible for detecting fraud in the course of the audit or they might have higher expectations regarding the auditor's role in detecting fraud, which could lead to misinterpretation of the auditor's role and the scope of the auditor's work. This misinterpretation could result in unintended consequences, for example, negatively impacting the auditor's reputation and imposing undue burden if fraud incidents are subsequently reported on the entity, despite the auditor's compliance with ED-240 when conducting the audit. To avoid this misinterpretation, our stakeholders recommended not to include the additional statements in the auditor's report as currently drafted. Alternatively, the IAASB may consider:

Including a statement in the auditor's responsibilities section of the auditor's report that acknowledges the inherent limitations of an audit in respect of identifying fraud or suspected fraud. This would inform users that, despite proper planning and performance of the audit in accordance with the ISAs, there is a risk that some material misstatements may not be detected (as described in ED-240.9).

Stating in the directors' and TCWG's responsibilities section of the auditor's report that the primary responsibility for the prevention and detection of fraud lies with both management and TCWG of the entity (as outlined in paragraph 16 of the EM).

In this regard, it is also recommended that the IAASB work with local professional accountancy bodies and standard setters to educate the general public through discussion forums or publications. A full understanding of the work performed by auditors and its limitations and the responsibility of management and TCWG related to fraud would be helpful to narrow the expectation gap. The HKICPA is willing to work with the IAASB to organize discussion forums or develop publications.

Furthermore, in order to enhance comprehension and consistent application of the application material in ED-240, we recommend that the IAASB provide examples to illustrate the circumstances referred to in (a) ED-240.A168 and the proposed conforming amendments in ISA 701.A21 regarding “certain risks of material misstatement due to fraud not requiring significant auditor attention” and (b) ED-240.A176 which pertains to a listed entity where “in certain limited situations, the auditor may determine that there are no matters related to fraud that are key audit matters”.

Auditing and Assurance Standards Board Canada

Disagree, with comments below

We do not support the proposals relating to enhancing transparency about matters related to fraud in the auditor’s report.

We recognize that the IAASB included in the project proposal to explore revisions to requirements and enhancements to application material to determine the need for more transparency in the auditor’s report describing fraud-related matters. However, we believe that the proposals will further exacerbate the expectation gap and there is not enough evidence to support that separate requirements are needed on fraud-related matters.

Key concern: Key audit matters (KAMs) relating to fraud

Through our outreach, we heard concerns about the: risk of further widening the expectation gap; and practical application of the requirements.

Risks of further widening the expectation gap

Concerns expressed included:

The heading “Key Audit Matters Including Matters Related to Fraud” (Illustration 1, ISA 700, Forming an Opinion and Reporting on Financial Statements); and the requirement for a separate subheading clearly describing the matter relating to fraud (paragraph 63):

It creates an unbalanced representation in the auditor’s report (i.e., higher prominence on fraud-related matters when other areas required significant auditor attention) and implies the auditor is doing more about fraud than is required in the standard; and

It may be interpreted that fraud has occurred at the entity.

Where the auditor has concluded and is therefore required to communicate a statement in the auditor’s report that “there are no KAMs related to fraud” (paragraphs 64 and A177):

This statement can be interpreted as an explicit conclusion that there are no instances of fraud at the entity.

There may be an auditor bias to identify a KAM related to fraud and include a boilerplate disclosure, to avoid making the explicit statement.

Our independent academic research found that even when the auditor decided there were no KAMs to include in the auditor’s report, extensive consultations were needed resulting in incremental audit costs to support that decision. We believe that if paragraph 64 remains in ED-240, a similar experience will likely occur when auditors decide “there are no KAMs related to fraud.”

In the circumstance where there is an ongoing investigation of identified fraud or suspected fraud and the auditor has concluded there are no other KAMs related to fraud:

Under ED-240 the auditor would be required to:

disclose a KAM related to fraud, which could imply that the auditor has made a legal determination about the fraud being investigated; or

include a statement that “there are no KAMs related to fraud,” because the issue is still being investigated. This decision could risk damage to the auditor’s reputation if it becomes public soon after the audit is completed that there was fraud relating to the entity being audited.

Furthermore, there were questions about whether the auditor can disclose the matter in the auditor’s report when a legal determination of the matter has not been made.

Under extant ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report, paragraph 14 and ISA 701, paragraph A52 this issue does not exist. An auditor may determine that due to an ongoing investigation, it may preclude public disclosure of the matter. The auditor can choose to wait until a legal determination has been made to include the KAM related to fraud in the auditor’s report and during the interim period, the auditor does not need to include a specific statement that there are no KAMs related to fraud.

The practical application of the requirements

Concerns expressed included:

The auditor may be expected to disclose fraud-related entity information that the entity itself has not disclosed in the financial statements.

However, prevention and detection of fraud are the primary responsibility of management and those charged with governance.

The financial reporting disclosure standards regarding fraud are limited, and management may interpret existing disclosure requirements as not requiring the disclosure of fraud-related matters in the financial statements unless they are quantitatively material.

Even in the circumstances where management chooses to disclose fraud-related matters through other documents outside the financial statements, like press releases or a management discussion and analysis document, there is concern that the auditor’s KAMs may inappropriately refer to these other disclosure documents and expand the auditor’s responsibilities to information beyond the financial statements.

Given the topic of fraud, it is possible management may frequently assert that disclosing the fraud-related issue could have adverse consequences for the entity, as it could be misconstrued as an indication of actual fraud, potentially resulting in increased regulatory scrutiny, market reactions, or negative press coverage.

Paragraph A178 and ISA 701, paragraph 14(b) state “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.” This is based on the presumption that there is “a public interest benefit in providing greater transparency about the audit.” However, these paragraphs note that there may be circumstances where it is appropriate not to communicate a KAM if it is believed that doing so would have “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.”

During outreach we received questions on how to determine when the “adverse consequences to the entity outweigh the public interest benefit,” as fraud is a more sensitive topic with management than common KAMs disclosed under the extant standard such as impairments.

By requiring the statement “there are no KAMs related to fraud” if none have been identified, there is a risk of boilerplate disclosures when:

year-over-year the risks of material misstatement due to fraud remain the same at the entity (e.g., the presumed risks of material misstatement due to fraud in revenue recognition and/or management override of controls); and

the auditor determines there are no other KAMs related to fraud.

Given the above concerns, we do not support requiring separate KAMs related to fraud in ED-240 as we believe extant ISA 701 appropriately includes fraud-related matters as part of the existing KAM requirements. However, changes to existing application material and further application material/guidance are needed to provide a new solution over extant that will drive behavioral change to enhance transparency in the auditor's report.

Suggest:

Removing the requirements in paragraphs 61-64 of ED-240.

Removing reference to “reporting” in paragraphs 2(b) and 17(d) as these responsibilities and objectives are captured under ISA 701.

2. The auditor’s responsibilities relating to fraud when conducting an audit in accordance with this ISA, and other relevant ISAs, are to: (Ref: Para. A1)

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.

Communicate and report about matters related to fraud.

17. The objectives of the auditor are:

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

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

To respond appropriately to fraud or suspected fraud identified during the audit.; and

(d) To report in accordance with this ISA.

Continuing to use the current KAM requirements in extant ISA 701 and making the following enhancements:

Consider adding application material as a conforming and consequential amendment to ISA 701 to enhance considerations of fraud-related matters, such as the material in paragraph 61(b) regarding the identification of fraud or suspected fraud as a consideration when determining KAMs.

We believe the material in paragraph 61(a) is covered in extant ISA 701, paragraph 9 and paragraph 61(c) is covered in extant ISA 701, paragraph A29.

Retaining the proposed consequential amendment to ISA 701, paragraph A21 as the extant wording may have driven auditors not to communicate KAMs related to fraud. It also reminds the auditor that presumed risks of material misstatement due to fraud in revenue recognition and management override of controls may or may not have been a matter of most significance in the determination of KAMs.

Developing implementation guidance:

Following the requirements of ISA 701, showing a range of KAMs relating to fraud (e.g. when fraud has not been identified but is a significant risk requiring significant auditor attention) and developing examples of scalable KAMs related to fraud disclosures (e.g. for a smaller entity without the use of forensic specialists) to encourage the communication of fraud-related matters other than when actual fraud or suspected fraud has occurred.

Demonstrating how to build upon common existing KAMs to include a discussion of fraud risk factors.

From the “Lessons Learned from KAM Reporting on Audits of TSX-Listed Entities: Observations from the 2020 Canadian Experience” study, it was identified that the most common KAM topics were related to different types of asset valuation (fixed assets, intangibles, investments, other assets).

This will promote more careful consideration of assessing the risk of material misstatement due to fraud in those existing areas where a KAM is already reported but focuses currently on the risk of material misstatement due to error.

This suggestion can address the concerns above about the expectation gap as fraud-related matters are one element of the KAM and this will result in a more robust and informative KAM.

For example, an existing KAM relating to impairment can be further expanded on for the fraud risk factors, when discussing management bias in making judgments about future events and conditions.

Communication of fraud-related matters in the auditor’s report

Another area that risks widening the expectation gap by implying that the auditor is doing more regarding fraud, is how the auditor’s communication with those charged with governance is described in the auditor’s report. The consequential amendments made to ISA 700 imply that all instances of fraud or suspected fraud are communicated to those charged with governance whereas paragraph 67 of ED-240 requires a subset of fraud or suspected fraud involving “management, employees who have significant roles in internal control or others where the frauds result in a material misstatement in the financial statements” to be communicated to those charged with governance.

Suggest:

Updating the consequential amendment in ISA 700 and related illustrative reports to remove bullet (ii) and amend (iii) (as suggested below) to be consistent with paragraph 67 of ED-240.

40. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also shall: (Ref: Para. A50)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

(i) Significant deficiencies in internal control that the auditor identifies during the audit; and

(ii) Identified fraud or suspected fraud; and

(iii) Other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance;

Nordic Federation of Public Accountants

Disagree, with comments below

Although we are in favor of transparency, we are concerned with the proposed way of addressing shortcomings in the application of current KAMs to fraud situations.

We cannot see how adding a subheading about fraud and also explicitly mentioning “matters relating to fraud” will add any value. Rather we are concerned that this may have the opposite effect and lead to larger expectation gaps. Even the option chosen by the IAASB (option 3) might disturb the balance with and reduce the significance of other KAMs. Also, since the proposals in the auditor’s report refer only to “fraud” without at the same time linking it to risks of material misstatements on the financial statements it might give the impression that the audit also deals with non-material fraud.

Including a KAM requires the auditor to refer to information in the financial statements. In cases where the financial statements do not include wordings to refer to there is a risk that the auditor will include original information. In order to reduce such a risk these proposals should be aligned with correspondent requirements in the accounting standards.

Most worrying, however, is the requirement in ED-240 paragraph 64 to include a statement in the auditor’s report that there are no matters related to fraud to communicate. This is bound to lead to misunderstandings, confusion and new expectation gaps. It is quite likely that users perceive the statement as an auditor opinion that there is no fraud in the company since they will not understand how to interpret “to communicate” correctly. The risk of misunderstanding the meaning of the statement is particularly imminent in situations where the exemptions in paragraph 14 in ISA 701 apply, for example in a situation where there is an ongoing police investigation regarding fraud that is not made public and where the auditor is not allowed to disclose any information.

There is also a concern what impact adding enhancements to the auditor’s responsibilities (ISA 700 paragraphs 40 a) and c) will have on audits performed according to ISA for LCEs.

Instituto de Auditoria Independente do Brasil

We are concerned that the requirement in paragraph 64 may lead to unintended consequences and further exacerbate the expectations gap. The statement that there are no KAMs related to fraud may be read as a guarantee that contradicts the inherent limitations of an audit as described in paragraphs 10-11 of the standard.

Disagree, with comments below

We are of the opinion that including fraud matters in the auditor’s report is not beneficial. Financial statements and auditor’s report users can be misled around auditor’s responsibilities regarding fraud (even though with the definition in the standard) and it can also raise other questions around the sufficiency of the audit procedures performed to address fraud risk. In addition, through KAM mechanism auditors will need to describe the performed procedures, including the unpredictable ones. Along the years, the unpredictability element will be lost.

Additionally, as currently drafted, we believe ISA 240 puts more responsibility on the auditor than management when disclosing fraud or suspected fraud. We understand that ISA 701 appropriately addresses the considerations an auditor should make in determining which matters required significant auditor attention in performing the audit, including matters related to fraud or suspected fraud.

The positioning of requirements to determine and communicate KAMs outside ISA 701 seem confusing. We are concerned that the requirements in Para. 61-62 may be interpreted as a “parallel” process for determination of KAMs in respect to fraud that is separate and/or incremental to the determination of KAMs in respect of other aspects of the audit in accordance with ISA 701. We also believe that this may result in

auditors considering that a fraud-related KAM would always be included in the auditor's report, even when the fraud-related matter was not, in fact, of the most significance to the audit.

Royal Dutch Institute of Chartered Accountants

Suggestions for further improvement

You may be aware that the Netherlands has already implemented additional transparency requirements for auditors, which include mandatory reporting of the auditor's determination of fraud risks and the procedures performed in response to those risks. We recommend auditors to also report their findings from these procedures. Whilst we will be evaluating this reporting and whether enhancements are needed, we do think stakeholders demand transparency. We think ED-ISA240 could be enhanced in this regard, in particular for non-PIE engagements.

Disagree, with comments below

We agree with the proposed changes in ED-240 to enhance transparency about fraud-related matters in the auditor's report. We believe fraud reporting should not be limited to listed entities and public interest entities. We suggest IAASB further adjust ISA 240 accordingly.

As you may be aware, the NBA has already established extended reporting requirements for auditors in the Netherlands to report on fraud risks and fraud procedures. These requirements in the Dutch ISA 700 go beyond ED-240.

We analyzed audit reports 2021 and 2022. A first impression is that the reporting requirements on fraud have a positive effect on the focus on fraud in the audit, improving the awareness of audit team members and communication on this topic with the client. Also, communication and reporting lead to more attention to fraud by the entities' leadership and those charged with governance.

We are currently evaluating our experiences in practice with these requirements. The subject of this evaluation is also transparency about findings in auditor's reports. This evaluation is planned to be completed by the end of this year.

Institut der Wirtschaftsprüfer in Deutschland

The overemphasis on risks of material misstatement due to fraud as KAMs, which will lead to skewed, biased auditor reporting on matters related to fraud when other matters may be more important as KAMs, or may lead to additional boilerplate language in the KAM section of the auditor's report. Greater recognition may also need to be provided on legal limitations on what may be include in the auditor's report in relation to pending or actual legal proceedings. (Response to Question 5)

Disagree, with comments below

The requirements for key audit matters (KAMs) in relation to fraud in the auditor's report from paragraph 61 to 64 of the draft introduce a systematic bias into the audit report, which in our view is inappropriate. There are many situations where matters related to fraud are not among those matters that were of most significance in the audit. Effectively requiring the inclusion of such matters as KAM by requiring at least some fraud-related matters to generally be considered of most significance in the audit not only contradicts the definition of a KAM, but also undermines the intent of KAMs to emphasize the most important matters, regardless of their nature. In many cases, these requirements in the draft will lead to a potential overemphasis on fraud in KAM, which will lead to "boilerplate" reporting and thereby dilute the impact of the auditor's report. For these reasons, we take issue with the assertion in paragraph A170 that states that one or more matters related to fraud would ordinarily be of most significance in the audit and therefore a KAM and A176 of the draft, and with the assertion

in paragraph A176 that it would be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least on KAM related to fraud.

As a precedent, these requirements also open the door to other specific matters to be included in the auditor's report (and in particular, in the KAM section) as a "checklist", which will distract users from the most important messages (the audit opinion), and perhaps to "piecemeal" audit opinions.

In practice, practitioners may be tempted to opt for standardized reporting on fraud rather than making the statement that there are no key audit matters related to fraud to communicate from paragraph 64. In fact, this statement is redundant, because if fraud related matters are not included as KAMs it is self-evident that there are no key audit matters related to fraud to communicate.

There may also be legal issues with including certain information about fraud or suspected fraud in certain jurisdictions, including Germany, because of strict statutory confidentiality obligations for auditors and legal requirements not to disclose information publicly about confidential criminal investigations or pending criminal investigations. In other words, we believe that in many cases, paragraph 14 of ISA 701 would apply, which may defeat the purpose of the requirements in paragraphs 61 to 63.

The requirements from paragraphs 61 to 64 for suspected fraud should also be clarified, following on from the issues addressed in our responses to Questions 1 and 4 relating to the distinction between alleged and suspected fraud. We are not convinced that an alleged fraud that has not been determined to be suspected fraud can ever be a KAM under the definition of KAM or the requirements from paragraphs 61 to 64.

Furthermore, seeking disclosures on suspected fraud will likely lead to accusations (if not suits) of libelous reporting from those that had been investigated because a disclosure in a public form of suspected fraud that turned out not to be actual fraud could be viewed as libelous. Disclosing a suspected fraud that the auditor concludes is not fraud – particularly in relation to management – will cause considerable unnecessary tumult in capital markets because readers will often unjustifiably presume that "where there is smoke, there must be a fire". This will be exacerbated through media misreporting or misinterpretation of the matters disclosed. For these reasons, we regard the second bullet point in paragraph A165 and the example in the box after paragraph A168 to be unrealistic if no actual material fraudulent financial reporting is detected. We therefore conclude that KAM would therefore likely need to be restricted to cases of actual material misappropriation of assets or fraudulent financial reporting that has been corrected.

However, if the auditor identifies the existence of actual material misappropriation of assets or fraudulent financial reporting, this is very likely to be a KAM under ISA 701 without the need to provide additional requirements in ISA 240. Application material in ISA 240 to this effect would adequately buttress the proper application of ISA 701 in this regard.

We agree with the clear majority of the matters addressed in the draft. However, we do have a number of important concerns regarding the draft that we address in this response template. The main themes underlying our concerns relate to:

5. Accounting Firms

MNP

Disagree, with comments below

We do not believe that ED-240 appropriately enhances transparency about matters related to the fraud in the auditor's report and believe that it may introduce further confusion and may further widen the expectation gap between financial statement users and auditors.

We believe that fraud risk assessments, responses, and instances of actual or alleged frauds were sufficiently included within the scope of ISA 701. Key audit matters are selected from matters communicated with those charged with governance and those matters always include the auditor's fraud risks identified and risk response. Having two levels of key audit matters, those related to fraud and those unrelated to fraud may confuse financial statement users. On the topic of actual frauds, it is management's responsibility to disclose that information to financial statement users, not the auditor. If an actual fraud occurred and management disclosed the matter in the notes to the financial statements, if it takes significant auditor attention it would be reasonable that it could constitute a key audit matter, however the auditor report disclosure is likely to be boilerplate given the sensitivities around the matter and due to the notion that the auditor report should not contain any disclosure that is not already in the financial statements.

Additionally, if a fraud were to occur, by disclosing it in the auditor's report prior to any legal proceedings, the auditor would be considered a trier of fact which would be inappropriate.

On most Canadian listed entity audits, fraud-related matters rarely meet all of the conditions required to report a KAM under ISA 701. The statement in A176 that it would be rare that the auditor would not determine at least one KAM related to fraud in the audit of a complete set of general-purpose financial statements for a listed entity is inconsistent with our experience in applying CAS 701 and will result in a significant change in practice.

We encourage the IAASB to conduct a post-implementation review of ISA 701 before introducing additional disclosures to auditor's reports. A September 2022 report on Key Audit Matters in Canada by Joanne Jones and Sandra Scott from the University of Guelph found that "Users reported limited awareness of the existence of KAMs, and very limited use of the information." The report also found that "Even after reviewing example KAMs, users indicated that they were unlikely to use the information. Given the barrage of information, users viewed the KAMs as dated and not sufficiently informative about the business and/or business model" (source). In a world of information overload, it is imperative that we ensure the information contained in the auditor's report is useful for financial statement users.

Crowe

Disagree, with comments below

We are aligned with the IAASB's stated goal to "enhance transparency in the report where appropriate." As such, we support the proposed requirements with the intent to increase transparency in the auditor's report regarding the auditor's fraud-related responsibilities and procedures, as communicated to the audit committee.

We also support the application of a fraud "filtering mechanism" to assist auditors in determining which matters related to fraud (if any) may be key audit matters (KAMs). However, paragraphs 61 and 62 in ED-240 appear to reflect a requirement for the auditor to identify at least one KAM related to fraud. We believe ISA 701 provides a sufficient framework for the auditor, using their professional judgment, to evaluate fraud-related matters to determine if they should be reported as KAMs. Therefore, we believe the proposed requirements related to determining key audit matters related to fraud in paragraphs 62 is overly prescriptive, and we do not support them. In addition, the content of paragraph 61 in ED-240 would be better placed within ISA 701.

For the same reasons, we do not support the proposed addition of “Including Matters Related to Fraud” to the KAMs heading, in ISA 701 paragraphs 11 and 16.

Paragraph 64 of ED-240 states, in part, that “if the auditor determines that there are no key audit matters related to fraud to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor’s report.” We do not support this requirement based on our concerns about the risk of confusion for financial statement users, potential boilerplate topics or language, and inclusion of original information about the entity.

Risk of confusion for financial statement users: If, in accordance with ISA 701, the auditor has identified a KAM related to fraud, the auditor will report it accordingly. The lack of a KAM related to fraud inherently means the auditor has not identified such a KAM. Therefore, we find it unnecessary to specifically communicate as such in the report.

Further, we are concerned that a user may misinterpret this statement in the report as the auditor providing some level of assurance that there is no fraud or no risks of fraud, or that a user may otherwise misinterpret the meaning of the auditor’s statement that there are no key audit matters related to fraud to communicate.

Potential boilerplate topics or language: As noted above, we interpret ED-240 to reflect a requirement for the auditor to identify at least one KAM related to fraud. We believe that it is likely that many auditors may determine that their response to the presumed fraud risk related to management override was the matter related to fraud that was of most significance in the audit. This is likely to result in boilerplate language provided by auditors in reports that will not provide value to financial statement users.

Inclusion of original information: Based on the requirement in paragraph 62 of ED-240, we believe that auditors may be put in a position to report a fraud matter as a KAM that, based on the auditors’ professional judgment, otherwise would not be identified as a Key Audit Matter. In reporting a KAM related to such a fraud risk matter, the auditor may find it necessary to include original information – that is information that management has not / is not required to publicly disclose. We believe the requirements in paragraph 62 of ED-240 increase the likelihood of reporting KAMs where management is not required to publicly disclose information related to such matters, thus increasing the risk of the auditor being in a position of disclosing original information. We believe it is not the auditor’s responsibility to disclose such information. Furthermore, the auditor’s description may leave the user with more questions about how management has evaluated and responded to the matter.

As noted above, we understand that the proposal reflects the intent of the IAASB to increase transparency in the auditor’s report regarding the auditor’s fraud-related responsibilities. We recommend the IAASB consider if this would be better addressed by making changes to the required KAMs introductory language in ISA 701, instead of the requirements included in paragraphs 63 to 64 in ED-240. For example, ISA 701, could be modified to require an introductory statement in the auditor’s report that the auditor’s consideration of KAMs includes matters communicated with those charged with governance related to fraud or fraud risks. The proposed requirements to apply a fraud filtering mechanism when assessing KAMs (paragraph 61 of ED-240) could be moved to ISA 701.

SRA

Disagree, with comments below

In the Netherlands, the auditor has been required for several years to report on fraud risks in the auditor’s report issued following a statutory audit engagement. The Dutch version of ISA 700 has been amended for this purpose. The obligation also applies to non-PIEs. The auditor is required to report on the identified risks, the work performed and important observations and is encouraged to report on any findings. Based on the

first evaluations after the introduction of this obligation, we identify the following points of attention for the IAASB:

1. It is important to emphasize the primary responsibility of management for preventing, detecting and correcting material misstatements resulting from fraud. This is preferably evident from the management report. The auditor reports in line with his responsibility, namely expressing an opinion on the fairness of the financial statements. There could be a discrepancy between the information in the management report and the reporting by the auditor. The relevant auditing standards (such as ISA 700, ISA 701, ISA 705 and ISA 720) should provide for this.
2. There may be potential issues regarding the confidentiality of the information that the auditor reports, if the report addresses company-specific situations.
3. There is a risk that auditors will start reporting in the form of ‘boiler plate’ texts, which have also been created from a compliance, legal and/or quality management perspective.

We recommend that the IAASB addresses these points of attention in ISA 240.

Deloitte

Disagree, with comments below

We are supportive of the IAASB’s effort to enhance transparency around the auditor’s responsibilities related to fraud in an audit of financial statements, such as is being proposed in the amendment to ISA 700, paragraph 40(a). However, we believe that the proposal to introduce Key Audit Matters (KAMs) related to fraud does not meet this objective and may, conversely, have a detrimental effect on (1) existing frameworks with respect to reporting such matters, which should begin with the entity itself, and (2) comparability and understandability by users of the auditor’s report. Our concerns include the following:

We believe that fraud is a legal determination that should be made by the appropriate authorities and is not a determination to be made, and reported, by auditors. By publicly communicating a conclusion that fraud has occurred, the auditor would be making a legal determination.

Paragraph 61 of ED-240 requires the auditor to determine, from the fraud-related matters communicated with those charged with governance, those matters that required significant auditor attention. Paragraph 62 then requires an auditor to determine which matters from paragraph 61 were of most significance and, therefore, are KAMs. We have the following concerns with these paragraphs:

As currently drafted, paragraph 61(b) specifically puts more responsibility on the auditor than management to disclose information that may be original information related to the entity. It should not be incumbent upon the auditor to disclose to the public fraud or suspected fraud, especially when management does not have a similar responsibility to do so.

As it relates to paragraph 61(c), similar to paragraph 61(b), management is responsible for maintaining internal control, including related to the prevention and detection of fraud. First lines of public communication about deficiencies related to internal control should come from management. Auditors should report significant deficiencies to management and those charged with governance, in accordance with ISA 265.

ISA 701, paragraph 9, includes factors that auditors are required to take into account when determining which matters required significant auditor attention in performing the audit and, consequently, should be communicated as Key Audit Matters. Among these factors are:

Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised 2019).

Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that are subject to a high degree of estimation uncertainty.

The effect on the audit of significant events or transactions that occurred during the period.

We believe that ISA 701 appropriately addresses the considerations an auditor should make in determining which matters required significant auditor attention in performing the audit, including matters related to fraud or suspected fraud, which would be scoped into the first bullet above since fraud risks are by nature significant risks. Accordingly, we do not believe the supplemental requirements related to KAMs proposed in ED-240 are warranted.

While ED-240 does not explicitly require the inclusion of at least one fraud KAM, we believe the language within paragraphs A170 and A176 of ED-240, specifically the use of terms such as “ordinarily”, “rare”, and “certain limited circumstances”, may be interpreted by many as there being an implicit requirement to include at least one fraud KAM in the audit report, which does not align with the intent of ISA 701, paragraph A21 (emphasis added):

Paragraph A170: “... one or more of the matters related to fraud that required significant auditor attention in performing the audit ... would ordinarily be of most significance in the audit of the financial statements ... and therefore are key audit matters”

Paragraph A176: “... rare that the auditor ... would not determine at least one key audit matter related to fraud” and “...in certain limited circumstances, the auditor may determine that there are no matters related to fraud that are key audit matters”

We acknowledge that the IAASB, in proposing this new standard, took steps to try to avoid any fraud-related KAMs from

being “boilerplate.” We believe, however, that expecting all audit reports, except in rare circumstances, to include at least one fraud-related KAM will inevitably result in boilerplate language that is not meaningful to a reader of an audit report. Despite the language in paragraph A168 of ED-240, we believe that auditors will be compelled by the standard to include at least one fraud-related KAM, even when there are no matters that required significant auditor attention. When compelled to do so, against the judgment of the auditors and consideration of ISA 701, any communicated KAM language would be generic, especially year-over-year and particularly when management override of controls is the sole fraud-related KAM identified, since the response to this presumed risk of fraud is prescriptive in the auditing standards. Further, this may result in expanding the expectation gap of auditors’ responsibilities related to fraud in an audit.

Paragraph 64 of ED-240 requires the auditor to include an explicit statement in the auditor’s report to the effect that, based on the facts and circumstances of the entity and the audit, there are no KAMs related to fraud to communicate. We believe a statement like this may have detrimental consequences. For example, a reader may, instead of interpreting this statement as there being no fraud-related matters that required significant auditor attention in performing the audit, interpret the statement as there being no fraud risks in the audit.

For the reasons described above, we recommend the IAASB remove the fraud-related KAM requirements (paragraphs 61 through 64) and related application material from ED-240, as the existing KAM requirements and related application material in ISA 701 are sufficient; additional requirements in ED-240 may signal that

ISA 701 is not fit for purpose as currently written. In addition, we recommend that the title in the audit report should not be updated to “Key Audit Matters Including Matters Related to Fraud”, but instead should remain as “Key Audit Matters”. If the IAASB maintains that more of a fraud focus is required for KAMs, we recommend that guidance for fraud considerations when identifying KAMs be added to ISA 701 application material rather than ISA 240.

Grand Thornton International

Disagree, with comments below

We believe that the current KAM reporting mechanism in ISA 701 is operating effectively. We do not agree with the proposed KAM filtering mechanism in ED-240 or the requirements to use a KAM sub header specific to fraud or the requirement to include a statement that there are no key audit matters related to fraud to communicate (when applicable based on the facts and circumstances of the engagement). As such, we suggest the IAASB remove the KAM requirements from ED-240 (paragraphs 61-64), which will result in auditors continuing to use ISA 701 to identify and communicate KAMs. We considered the following in making this suggestion:

The proposed KAM filtering mechanism is flawed for the following reasons:

ISA 701 in its current form does not prohibit an auditor from identifying a fraud-related matter as a KAM.

The application material for the proposed KAM filtering mechanism is vague, and we question whether any matters listed ED 240, paragraph 61 could be filtered out. Specifically, we question whether it is appropriate to disclose suspected fraud as a KAM given the investigation into such matters is likely ongoing. Additionally, we do not believe all identified fraud rises to the level of a KAM (for example, petty theft at a retail location or isolated incidences of timecard fraud). Under ISA 701, we believe that disclosure of fraud related matters as a KAM would focus more appropriately on those matters associated with a material risk of misstatement (qualitative or quantitative) and the language in ED-240 does not consider whether the fraud matters are material.

We disagree with the example in ED-240, paragraph A165 which states that significant transactions with related parties or outside the normal course of business are fraud-related KAMs. The language in this example does not provide any filtering mechanism for the auditor to determine that such matters do not rise the level of a fraud related KAM.

We do not believe the example included in ED-240, paragraph A173 is sufficiently specific to prevent the use of boilerplate fraud related KAMs and avoid the auditor providing original information in the auditor’s report that management has not disclosed. If, despite the concerns listed here, the IAASB retains specific language related to fraud KAMs in ED-240, we suggest that a more specific example is provided or that nonauthoritative guidance is issued when ED-240 is approved.

We believe that disclosures related to the presumed fraud risk of management override of controls will be boilerplate language to meet the implied requirement that the audit report should have at least one fraud related KAM, which would not be beneficial to users of the financial statements or enhance their understanding of the audit.

The proposed KAM sub header specific to fraud is flawed for the following reasons:

We believe an unintended consequence of this sub header is that it may detract from non-fraud KAMs in the auditor’s report that are potentially of more importance to the user of the financial statements than a KAM about immaterial fraud or suspected fraud or a statement that the auditor did not identify a fraud KAM.

Another unintended consequence is that the inclusion of such a sub header may imply that KAMs are identified and treated differently if they relate to fraud. It is unclear if that is what the Board intends.

The requirement to include a statement that there are no key audit matters related to fraud to communicate (when applicable based on the facts and circumstances of the engagement) is flawed for the following reasons:

We do not believe the absence of a fraud related KAM meets the definition of a KAM as currently presented in ISA 701. As a result, we believe this requirement will weaken the relevance and importance of KAMs overall.

We are concerned that the proposed requirement in ED-240, paragraph 64 will be interpreted by users of the financial statements as negative assurance that there is no fraud. As noted in the inherent limitations in ED-240, auditors are not expected to identify all fraud, and in fact, may not be able to identify fraud if collusion is present. For these reasons, we believe this statement will perpetuate the existing expectations gap and may have the unintended consequence of eroding the public's faith in the value of an audit if the auditor includes a statement that there is no fraud related KAM and fraud is later identified and reported in the news. The risk of this unintended consequence is magnified since the auditor's requirements related to third party fraud, as proposed, are at the same level as the requirements related to fraud perpetrated by management and others at the entity.

We do not think the inclusion of such a negative assurance statement within a reasonable assurance report is appropriate.

Baker Tilly International

Disagree, with comments below

Once a fraud is discovered you can often spot what you could have done differently to identify the fraud the proposed detailed changes to the audit report: incorrectly infer to a user that identifying fraud is the primary purpose of an audit set the auditor up for public scrutiny which in turn risks defensive and not targeted auditing which could ultimately harm rather than enhance audit quality risk overwhelming the reader about fraud issues, which may not be warranted in the circumstances, and may confuse, rather than clarify, auditor responsibilities, audit purpose and reporting of audit results

The proposed filtering mechanism is likely to be less effective in the context of ISA 240 than it is in the context of Key Audit Matters, because of the way ISA 240 appears to infer that fraud supersedes other audit considerations

The required audit report heading "Key Audit Matters including Matters Relating to Fraud" is also unhelpful in this regard – we recommend using "key audit matters" which could then include matters relating to fraud if they are key

Forvis Mazars

Furthermore, with regard to managing stakeholder expectations, we are concerned that the proposals around reporting fraud risks as a separate category unnecessarily elevates what auditors do on fraud over and above other risks, which in many cases are more significant than fraud risks. We are particularly concerned that the requirement to include an explicit statement that no key audit matters related to fraud were identified. in the auditor's report, may be taken by stakeholders as a statement that the financial statements are free of fraud, placing undue reliance on the audit report which cannot give absolute assurance. The tone of the exposure draft suggests that auditors should likely identify at least one fraud-related KAM. As such, the prescriptiveness

of the reporting requirement is likely to lead to boilerplate reporting as both companies and auditors look to mitigate the risks of transparency around fraud and, as such, would add little value to audit reports.

Disagree, with comments below

While we appreciate why the IAASB wishes to increase transparency of reporting relating to fraud in the auditor's report, we do not support the proposals in ED240. In particular, we are concerned that the proposals to include a separate section on fraud-related Key Audit Matters (KAMs) may increase the expectation gap around the auditor's responsibilities relating to fraud. Furthermore, and more importantly, we are concerned about the proposed requirement to explicitly state that there are no KAMs related to fraud. We believe this has the potential for audited entities and other stakeholders to place undue reliance and make an assumption that the financial statements are free of all fraud, or to assume that auditors are more responsible for prevention and detection of fraud than they actually are.

It is not clear why fraud related matters are being elevated above all other risks and matters arising from an audit, especially where there may well be much more important issues, risks, deficiencies and other findings in individual audit engagements such as the impact of geopolitical issues, economic volatility, cyber-related risks or sector specific matters. Investors value the insights that KAMs bring to the audit report, and we believe that reporting should reflect the risks facing the entity rather than include an artificial construct to report on fraud risks in all cases.

The proposals, as written, lead to a risk of boilerplate reporting particularly in relation to the presumed fraud risks around management override of controls and revenue recognition. Indeed, following the introduction of KAMs in the UK a number of years ago, it was quickly realized that including standard reporting around the presumed risks did not necessarily add value to auditor reporting and the inclusion of these two fraud risks as KAMs reduced rapidly.

Finally, we note that there may be unintended consequences where an auditor identifies a fraud during the engagement but which cannot be reported publicly on the grounds of confidentiality. In this situation, the auditor's report would have to include a statement that there are no fraud related KAMs to report, which would be blatantly untrue. Such a situation may also give rise to concerns with compliance with money laundering requirements in some jurisdictions where the auditor must be wary of the risk of potentially "tipping off" the perpetrators of a fraud where they have concerns (see also Question 4).

Ernst & Young Global

Transparency in the auditor's report

In ED-240, we find it unclear as to whether there is one process to determine key audit matters (KAMs) (under ISA 701) that includes the consideration of fraud-related matters, or a separate parallel process for determining KAMs related to fraud from which additional matters are reported together with the matters from the ISA 701 process under the heading of key audit matters in the auditor's report.

We believe the IAASB should incorporate the auditor's assessment of fraud risk, and the related impact it has on our audit strategy and response, in the determination of KAMs under the existing requirements in ISA 701 rather than establishing new requirements for the determination of fraud-related KAMs in ISA 240. We are concerned with an approach of determination of KAMs for specific topics, irrespective of whether they genuinely represent key aspects of the audit, because this diminishes the overall purpose of KAMs to be matters of most significance in the audit.

Although we agree with the inclusion of identified and assessed risks of material misstatement due to fraud and identified fraud as required considerations in the auditor's determination of KAMs, we do not believe

suspected fraud should be included. If it remains included, there is a need for specific further guidance. We believe unintended consequences are likely to arise if the auditor is put in a position of disclosing original information about suspected fraud, particularly when it may be determined to be unfounded or erroneous, including reputational damage to the entity and reduced transparency between management and the auditor, as well as a further widening of the expectation gap when the auditor communicates information that management is not required to communicate.

We also disagree with requiring a statement in the auditor's report when there are no fraud-related KAMs that there are no matters related to fraud to be reported. Such a statement may be misunderstood by financial statement users as providing an opinion or disclosure as to whether fraud has occurred at the entity.

Disagree, with comments below

To enhance transparency about matters related to fraud in the auditor's report, we believe the IAASB should incorporate the auditor's assessment of fraud risk, and the related impact it has on our audit strategy and response, in the determination of KAMs under the existing requirements of ISA 701 rather than establishing new requirements for the determination of "fraud-related KAMs" within ISA 240. Our view is based on the concerns we have about whether:

The proposed requirements and application material in ED-240 are capable of consistent implementation

The inclusion of suspected fraud as a required consideration for KAMs will have unintended consequences

The proposed revision to the key audit matters wording in the auditor's report, as well as the statement required when no KAMs related to fraud are identified, will widen the expectation gap

Requirements and application material for determining key audit matters are unclear

Based on the revisions proposed in ED-240, we find it unclear as to whether there is one process to determine KAMs (under ISA 701) that includes the consideration of fraud-related matters, or a separate parallel process for determining KAMs related to fraud from which additional matters are reported together with the matters from the ISA 701 process under the heading of key audit matters in the auditor's report.

It is our understanding that an objective of ED-240 is to add a "fraud lens" to the existing auditor reporting requirements in ISA 701. We support that objective, but do not believe that the requirements and application material in ED-240 provide the necessary clarity for auditors to execute the determination and communication of KAMs appropriately and in a consistent manner. In our view, this objective would be best achieved by integrating considerations related to fraud into ISA 701, resulting in a singular standard addressing the auditor's responsibility to identify and communicate KAMs in the auditor's report.

We believe there are inconsistencies between ED-240 and the requirements of ISA 701 regarding how an auditor determines which matters rise to the level of KAMs. The application material in paragraphs A162-A171 of ED-240 necessitates the auditor undertake a seemingly separate process for matters related to fraud than they would for any other potential KAMs. For example, a risk of material misstatement due to fraud may not be assessed by the auditor as requiring significant auditor attention under ISA 701.09. However, the same matter would then need to be taken into account by paragraph 61(a) of ED-240. It is unclear how the results of the ISA 701 process for determining KAMs influence or interact with the results of the separate process in ED-240.

It is also our understanding that by applying paragraph 61 and considering paragraph A170 of ED-240, which states that matters related to fraud are "often matters that require significant auditor attention" and "one or more of the matters related to fraud that required significant auditor attention would ordinarily be of most

significance... and therefore are key audit matters”, the auditor is expected to identify a KAM related to fraud, when applying this separate process. Although the requirements appear to allow the auditor to determine that there are no KAMs related to fraud, we believe this application material could be interpreted to imply that there is a required presumption that the auditor will identify a fraud-related KAM.

We acknowledge and agree with the intention of the proposed requirements and guidance to promote enhanced reporting of matters related to fraud within key audit matters, but do not believe this objective is effectively achieved by the requirements and application material currently proposed. We believe that the objective of adding a “fraud lens” on the determination of KAMs is better achieved with revisions to paragraph 9 of ISA 701 as follows, with conforming updates to the related application material:

9. The auditor shall determine, from the matters 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:

(a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised 2019), including risks of material misstatement due to fraud.

(b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that are subject to a high degree of estimation uncertainty

(c) The effect on the audit of significant events or transactions that occurred during the period.

(d) Identified fraud

(e) Identified significant deficiencies in internal control

In addition, we believe that application material to paragraph 10 of ISA 701 should be added specifically to address how the auditor considers the significance of fraud-related matters relative to all other matters that required significant auditor attention in determining KAMs. This could be achieved through revisions to paragraphs A27-A30 of ISA 701. However, we would be concerned with an approach that establishes a presumption that any fraud-related matter is a KAM, irrespective of whether the matter genuinely represents a key aspect of the audit, because such a presumption diminishes the overall purpose of KAMs. It is important that key audit matters remain (as defined) the matters of most significance in the audit.

Significant deficiencies in internal control relevant to the prevention and detection of fraud

With regard to the nature of identified significant deficiencies in internal control, we believe it is practically challenging to determine that a significant deficiency is not one that “is relevant to the prevention and detection of fraud” (i.e., paragraph 61(c) of ED-240). Any significant deficiency may create, or contribute to, an opportunity for fraud. We believe that, if the identification of significant deficiencies in internal control is to be considered in the auditor’s determination of KAM, any

significant deficiencies identified should be required to be taken into account. With this proposed change, conforming revisions to ISA 701 paragraph A29 would be necessary and the application material in paragraphs A162-A179 of ED-240 would also need to be integrated into the existing application material to ISA 701.

Significant concerns with disclosing suspected fraud in the auditor’s report

We have significant concerns with including suspected fraud in the list of required matters that the auditor is required to take into account to determine KAMs because of the unintended consequences that are likely to arise from communicating suspected fraud in the auditor's report.

The application material to ISA 701 clearly establishes that an auditor may appropriately seek to avoid the description of a KAM inappropriately providing original information about the entity. When an entity identifies a fraud that affects the entity, it is more likely that there will be public disclosures about the matter, particularly if it has a material effect on the financial statements. The same cannot be expected when a fraud is suspected because of the many circumstances that may result in suspected fraud and the processes established by entities to investigate allegations, neither of which may require public disclosure, particularly when disclosure may negatively affect the investigative process or when suspicions are determined to be unfounded.

Additional unintended consequences may arise from the auditor's disclosure of original information about suspected fraud, including reputational damage to the entity and resulting reduced transparency between management and the auditor, as well as a further widening of the expectation gap when the auditor communicates information about fraud at the entity that management is not required to communicate.

In many cases, suspected fraud will (and should) require significant auditor attention. However, through a robust investigation, including with assistance from professionals with forensics skills, suspicions may be determined to be unfounded or erroneous. Such matters do not have an effect on the financial statements or the audit opinion. Therefore, we do not believe suspected fraud that may ultimately be determined to be unfounded should be disclosed by the auditor; disclosure decisions on these matters should remain with the entity in the context of the applicable financial reporting and regulatory frameworks.

Short seller and whistleblower reports alleging financial fraud at an entity have increased over the last decade. Some of these reports are available publicly (e.g., short seller reports) while other types of reports alleging fraud (e.g., whistleblower reports) may be made directly to the entity without disclosure to the public. Short seller and whistleblower reports alleging fraud are not always well-supported and it is not unusual for an investigation into allegations of fraud to conclude that the allegations have no merit. Even where the allegations prove to be unfounded, the investigation into these matters may, in some instances, involve significant auditor attention. In this circumstance, ED-240's presumption that fraud-related matters are often KAMs would likely result in the auditor identifying a suspected fraud as a KAM and could put the auditor in the position of disclosing original information when the entity has no parallel obligation to disclose these unfounded allegations. Increased transparency related to unfounded allegations of fraud will not benefit the investing public and, indeed, may lead to confusion about the merits of the matter (e.g., if the fraud allegations were unfounded, why is the auditor referencing the matter in its report?). Users may believe that the audit opinion is perhaps not as sound as it should be.

We believe that the proposed inclusion of suspected fraud may also give rise to other unintended consequences, which could be significant. Auditors may find themselves in legal conflict with the entity (as further explained below), or management or those charged with governance may become less forthcoming to the auditor with information about allegations of fraud or whistleblower allegations if those allegations are likely to result in disclosure as KAM even where the fraud allegations prove to be unfounded.

In addition, we believe it will be rare that a suspected fraud that could have a material effect on the financial statements would not be fully investigated by the entity prior to the release of its audited financial statements. The outcome of these internal investigations, often led by a special committee overseen by those charged with governance and conducted under legal privilege by independent counsel, are typically shared with the

auditor pursuant to protocols that seek to minimize the scope of waiver of legal protections where feasible and consistent with the needs of the audit.

If the investigation concludes that a material fraud occurred, applicable securities or other regulations are likely to require that the matter be disclosed by the entity. However, if the entity concludes, after investigating, that the suspected fraud did not occur, there would ordinarily be no regulatory requirement that the entity disclose the matter. If unfounded allegations of fraud (which are assumed to require significant auditor attention) are expected to be disclosed as KAMs, the auditor could find itself in legal conflict with the entity that may assert the information is protected from disclosure or otherwise does not need to be disclosed by the entity under the applicable financial reporting framework. ED-240, as currently drafted, does not address any of these legal issues.

We do not believe the public interest exception proposed in ISA 701 paragraph 14(b) solves the legal issues. The exception is far too narrow, referencing “extremely rare circumstances.” We believe auditor reporting on suspected fraud must align with reporting obligations of the entity to avoid disclosure of original information. Accordingly, if the IAASB determines to retain suspected fraud as a required consideration for KAMs, we propose:

Removing “In extremely rare circumstances” from paragraph 14(b) of ISA 701.

Adding application material to provide guidance for the auditor in the situation when suspected fraud was identified and the matter required significant auditor attention. When the matter is determined to be a KAM, the auditor should be directed to specifically consider paragraph 14(b) of ISA 701 in the context of whether the entity has disclosed the issue, and if not, the legal issues that may arise from the auditor doing so, as well as the potential adverse consequences to the investing public as discussed above.

Auditor’s report revisions

We have concerns about the conforming amendments to ISA 700 and 701. As noted in our response above, we believe that matters related to fraud should be incorporated into a singular process for determination of KAMs in paragraphs 9 and 10 of ISA 701. Reference to “matters related to fraud” in the section heading of the auditor’s report (as proposed by the conforming amendments to ISA 701 paragraph 11) and use of that phrase in the auditor’s responsibility section in the auditor’s report (as proposed by the conforming amendments to ISA 700 paragraph 40(c)) give prominence to the auditor’s consideration of fraud matters, but do not appropriately reflect the other important matters an auditor considers as part of their determination of KAMs (e.g., significant risks, accounting estimates that are subject to a high degree of estimation uncertainty, significant deficiencies).

In our view, the section heading “Key Audit Matters” should be retained without revision and revisions to the auditor’s responsibilities section of the auditor’s report (or the introductory language of the KAM section) should be made instead to provide transparency about which matters in the audit are specifically considered in the auditor’s determination of KAMs. This wording could explain how the auditor’s determination of KAMs factors in fraud-related matters alongside the other matters the auditor is required to take into account.

In addition, we disagree with the requirement in ED-240 paragraph 64 for the auditor to include a statement in the Key Audit Matters section of the auditor’s report that there are no key audit matters related to fraud to communicate because such a statement may be misunderstood by financial statement users as providing an opinion or disclosure as to whether fraud has occurred at the entity.

Finally, as further explained in our response to Q4, we also suggest that the IAASB align the proposed changes to the auditor’s report in ISA 700 paragraph 40(a)(ii) to the scope of required communications with those charged with governance in ED-240 paragraphs 67.

KPMG International

Disagree, with comments below

We recognise the IAASB’s intentions to provide greater transparency to users of the financial statements and the auditor’s report in introducing the new requirements at paragraphs 61-64 of ED-240, together with conforming amendments to other ISAs, including ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report to emphasise fraud-related considerations when determining key audit matters (KAMs). These enhanced requirements and related conforming amendments include modification of the heading for the Key Audit Matters section of the auditor’s report, such that this will be “Key Audit Matters Including Matters Related to Fraud” and the inclusion of a separate section within this Key Audit Matters section to describe the KAM(s) related to fraud, or to state that there are none, as applicable. However, we have a number of concerns in relation to the proposals, as follows:

Firstly, we find the positioning of these requirements to determine and communicate KAMs, outside ISA 701, being the standard that deals with auditor’s responsibilities to communicate KAMs, to be somewhat confusing and not aligned with the underlying drafting principles for the ISAs. ISA 701.9 refers to the auditor “taking into account areas of higher assessed risks of material misstatement, or significant risks identified”, which would encompass risks of material misstatement due to fraud, as the auditor is required, at paragraph 40(b) of ED-240, to treat assessed risks of material misstatement due to fraud as significant risks. It is therefore unclear how the matters set out at paragraph 61 of ED-240 relate to, or act as a standard-specific overlay to, those at ISA 701.9. Furthermore, we believe that the conforming amendments proposed to ISA 701, e.g., at A8A and A18A already address the fact that matters related to fraud are often matters that require significant auditor attention and may therefore be KAMs. Accordingly, we believe that the current requirements set out in ISA 701, together with the related application material, including the conforming amendments, are fit for purpose and we do not consider the proposed material in ED-240 to be necessary or appropriate;

We believe that the intention of the IAASB is for auditors to consider fraud-related matters in the audit as addressed in ED-240 as an “overlay” when applying the requirements at ISA 701.9. However, as a result of the duplicative nature of the requirements at paragraphs 61-62 of ED-240, there is not only a lack of clarity as to what is explicitly required in accordance with these paragraphs that is incremental or an overlay to ISA 701, but we are concerned that these requirements may be interpreted as creating a parallel process for the determination of KAMs in respect of fraud, that is separate and/or additional to the determination of KAMs in respect of other aspects of the audit in accordance with ISA 701;

In connection with the above, the requirements at paragraph 61-62, and the conforming amendments to other ISAs, including to ISA 701, to require the heading for the Key Audit Matters section of the auditor’s report to be labelled “Key Audit Matters Including Matters Related to Fraud”, may undermine the requirement, at ISA 701.10, to determine “which of the matters determined in accordance with ISA 701.9 were of most significance in the audit...and are therefore KAMs”, which already includes fraud-related matters as an integral part of this determination for the audit as a whole. This may result in teams considering that a fraud-related KAM is always expected to be included in the auditor’s report, even when fraud-related matters were not, in fact, of most significance in the audit, when considered relative to other matters. As a result, we are concerned that this may drive a trend towards inclusion of “boilerplate” fraud-related KAMs, e.g., in respect of matters such as management override of controls, journal entries, or the presumed risks of material misstatement due to fraud

in revenue recognition, as auditors may be hesitant to state that there are no fraud-related KAMs. This may result in clutter within the auditor's report and may detract from important information set out within other KAMs, which would not be in the public interest;

We are concerned with the proposed requirement, at paragraph 63, to specifically identify fraud-related KAMs as such within the auditor's report, as we believe this may lead to a perception by users of the financial statements and the auditor's report thereon that the auditor has placed greater emphasis on/directed a greater work effort towards significant risks of material misstatement of the financial statements as a result of fraud as compared to significant risks in respect of other aspects of the audit and/or as compared to those in respect of error. This apparent elevation of fraud-related matters over other aspects of an audit may have unintended consequences in terms of widening the "expectation gap" in respect of the auditor's responsibilities in relation to fraud. It may also give rise to confusion, given that there are inherent limitations of an audit in relation to fraud, however, these are not applicable in respect of error, and therefore it seems counterintuitive to have increased emphasis on KAMs in relation to fraud matters only;

Additionally, we highlight that, in a number of circumstances, the audit procedures that are designed and performed to respond to the risk of material misstatement due to fraud may not be different to/clearly delineated from those to respond to the risk of material misstatement due to error. We refer to the circumstances discussed at paragraph A172, when there are a number of separate, but related, considerations (e.g., in respect of estimates) that were of most significance to the audit, and the auditor communicates the matters together in the auditor's report. In these circumstances, the requirement to separately describe the matter that relates to fraud may only be achieved either by duplicating material or by cross-referencing material, which would clutter the description of the matters, and may cause confusion for users of the auditor's report;

We are concerned that the statement required at paragraph 64, when applicable, that there are no KAMs in respect of fraud, may be misinterpreted by users to mean that no risks of material misstatement due to fraud were identified, and therefore the auditor has not performed audit procedures to respond to such risks. As a result, auditors may be reluctant to make such a statement, which may also drive the inclusion of boilerplate KAMs in the auditor's report.

In addition, we are concerned that a statement that there are no KAMs in respect of fraud may be interpreted by users as a form of assurance that there is "no material fraud at the entity" and potentially widen the "expectation gap" in respect of understanding the role and responsibilities of the auditor in respect of fraud;

We also believe that the inclusion of requirements at paragraph 61(b) and (c) are not necessarily appropriate, and appear to conflate matters that are communicated to those charged with governance, which in part are communicated to help those charged with governance to properly discharge their oversight responsibilities, with the concept of KAMs, which are intended to provide greater transparency about areas of significant auditor attention to users of the financial statements. If parts (b) and (c) of this paragraph are retained, we believe a conforming amendment to ISA 701 to include these matters explicitly in that standard would be required, as we do not consider it appropriate for requirements in respect of KAMs that go beyond ISA 701 to be established within other ISAs.

To address the above concerns, we recommend the following:

The proposed requirements at paragraphs 61-64 are not included within ISA 240, as the requirements and related application material, including the conforming amendments, in ISA 701 are already fit for purpose. Instead, we consider that any material introduced into ED-240 should be to act as an overlay to ISA 701 in respect of fraud-related matters, building on the requirements of ISA 701, similar to the intended interaction

of this standard with other ISAs, e.g., ISA 315R. Accordingly, any requirements and related application material should be restricted to addressing the application of a ‘fraud lens’ when determining KAMs in accordance with ISA 701;

The proposed requirement, at paragraph 63, to use an appropriate sub-heading to clearly describe the matter that relates to fraud, not be included in ED-240 (or ISA 701), to address our concern, described above, that audit procedures that are designed and performed to respond to the risk of material misstatement due to fraud may not be different to/clearly delineated from those to respond to the risk of material misstatement due to error and therefore it would be inappropriate or duplicative to attempt to disentangle these into separate descriptions;

The proposed conforming amendments to ISA 701 and other ISAs, to require the heading for the Key Audit Matters section of the auditor’s report to be labelled “Key Audit Matters Including Matters Related to Fraud” not be introduced. We believe this would help to avoid the engagement teams considering that a fraud-related KAM is always expected to be included in the auditor’s report, even when fraud-related matters were not, in fact, of most significance in the audit, and which may otherwise drive a trend towards inclusion of ‘boilerplate’ fraud-related KAMs;

The proposed requirement to state there are no KAMs related to fraud be removed. Notwithstanding our concerns described above regarding the proposed requirements at paragraphs 63 and 64, if the IAASB decides to retain these, we suggest that these are included as further conforming amendments to ISA 701 to address the circumstances in which there are no KAMs related to fraud.

We also have concerns that the proposed requirements may require the auditor to include a KAM in the auditor’s report in respect of a suspected fraud, which we describe further in our response to Question 1, together with our related recommendations to address these concerns.

6. Public Sector Organizations

Office of the Auditor General of Canada

Disagree, with comments below

We disagree with the additional communication requirement under ED-240 since ISA 701 already includes requirements for communicating KAMs. We believe those requirements are sufficient for transparency in the auditor’s report about fraud related matters. Moreover, requirements on the communication of fraud appear confusing as there appears to be some contradiction between the requirement in paragraph 64 and the application material in A176.

We consider the ISAs (UK) to be a relevant source of comparison for ED-240 as ISA (UK) 240 was published in May 2022 and the IAASB has considered ISA (UK) 240 when drafting ED-240 (Revised). Based on this, we believe it is appropriate to review the ISA (UK) in responding to this Exposure Draft.

We prefer that the extent of fraud-related work be explained in more detail, as noted in ISA (UK) 700, requirement 29-1. We believe this would bring more transparency to the fraud-related work performed by the auditor.

ISA (UK) 700, requirement 29-1 – Irregularities including Fraud notes: The auditor’s report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud. This requirement supports transparency and provides readers of the financial statements, information as to the extent of the work performed. This may result in increased clarity about the auditor’s responsibilities related to fraud.

We highlighted above the confusion in ED-240 paragraph A176 which notes: it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter related to fraud. We prefer the general wording in ISA (UK) 701. A59, where the paragraph did not include the inclusion of fraud: Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report.

Office of the Auditor General of Ontario

No. The proposals in ED-240 place disproportionate emphasis on matters related to fraud in the auditor's report. ED-240 sets out the expectation that at least one matter related to fraud will be included in every Key Audit Matters section (with only rare exceptions - paragraphs A176-A178) and further highlights fraud by mandating its inclusion in the related title. These changes may lead the public to believe that fraud is the central focus of the audit and further, that the role of the auditor is to address all aspects of fraud. Rather than enhancing transparency, we believe that these proposals would further compound the prevailing expectations gap. In our experience, the existing ISA 701 requirements are sufficient to assist auditors in determining and presenting Key Audit Matters.

7. Member Bodies and Other Professional Organizations

Chartered Accountants Ireland

Disagree, with comments below

We support the IAASB's effort to enhance transparency around the auditor's responsibilities related to fraud in an audit of financial statements. However, we believe that the proposal to introduce Key Audit Matters (KAMs) related to fraud does not meet this objective due to the following reasons:

Paragraph 62 requires an auditor to determine which of the matters determined in accordance with paragraph 61 were of most significance and, therefore, are key audit matters. We foresee several issues with this:

As it relates to paragraph 61(b), an auditor should not be required to report matters of fraud or suspected fraud, that may not be public knowledge. It should not be the auditor's responsibility to disclose to the public fraud, let alone suspected fraud, which could later be determined to not be fraud. Per paragraph 6 of the ED, fraud is not a determination to be made, and reported, by auditors. As currently drafted, paragraph 61(b) specifically puts more responsibility on the auditor than management when disclosing such matters.

As it relates to paragraph 61(c), similar to paragraph 61(b), auditors should not be required to report significant deficiencies in internal control that are relevant to the prevention and detection of fraud. Auditors should report significant deficiencies to management and those charged with governance, in accordance with ISA 265, but the onus should not be on auditors to publicly report significant deficiencies. Again, this is putting the auditor in a position of disclosing more information than the requirements of management.

If the goal is to encourage management and those charged with governance to disclose more of these matters, it should be addressed through the International Accounting Standard Board.

The standards that relate to KAMs in ISA 701 appropriately address the considerations an auditor should make in determining which matters require significant auditor attention in performing the audit. The inclusion of these fraud related KAMs included in ED-240 indicates the existing requirements in ISA 701 are not sufficient, which we do not believe to be the case. Accordingly, we do not believe supplemental KAM standards in ISA 240 are warranted.

While A168 does note that “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 “, this is not clear from the main body of ISA which looks to be encouraging disclosure of fraud related KAMs.

By requiring the disclosure of fraud related KAMs without considering the nature of the fraud risk, this undermines the role of an auditor’s professional judgment in determining the matters requiring significant auditor attention in performing the audit. Further, this may result in expanding the expectation gap of auditors’ responsibilities related to fraud in an audit.

We acknowledge that the IAASB, in proposing this new standard, took steps to try to avoid any fraud related KAMs from being “boilerplate”. We believe, however, that requiring almost all audit reports to include at least one fraud-related KAM will result in boilerplate language that is not meaningful to a reader of an audit report. Even with the language in paragraph A168 of ED- 240, we believe that auditors will be compelled by the standard to include at least one fraud-related KAM even when there are no matters that required significant auditor attention. When compelled to do so, against the judgment of the auditors and consideration of ISA 701, any communicated KAM language would be generic, especially year-over-year and particularly when management override of controls is the sole fraud-related KAM identified, since the response to this presumed risk of fraud is relatively prescriptive in the auditing standards.

The requirement in paragraph 64 to include an explicit statement to the effect that, based on the facts and circumstances of the entity and the audit, there are no key audit matters related to fraud to communicate may have detrimental consequences. For example, a reader may, instead of interpreting this statement as there being no fraud-related matters that required significant auditor attention in performing the audit, interpret the statement as there being no fraud risks in the audit or even that the auditor is opining that there are no instances of fraud in the financial statements.

For the reasons detailed above, we strongly recommend the IAASB remove the fraud-related KAM requirements and guidance from ED-240 and instead defer to the existing KAM guidance in ISA 701. Additionally, we suggest that the title in the audit report should not be updated to “Key Audit Matters Including Matters Related to Fraud, but instead should remain as “Key Audit Matters”. If the IAASB maintains that more of a fraud focus is required for KAMs, we recommend that guidance for fraud considerations when identifying KAMs be added to ISA 701 instead of ISA 240.

Federation of Accounting Professions of Thailand

Disagree, with comments below

Incorporating Key Audit Matters (KAM) related to fraud indeed amplifies the workload for auditors. Although the auditor’s responsibility is to execute the audit to attain reasonable assurance regarding whether the financial statements are free of significant misstatements due to fraud, it does not guarantee that all instances of fraudulent activity will be uncovered. Mandating auditors to include such language implies a proactive pursuit of fraud detection during audits. Moreover, integrating fraud-related KAMs might potentially confuse readers, as it could be misconstrued that detecting fraud is the primary mandate of auditors.

Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

Disagree, with comments below

While the risk of material misstatement due to fraud could very well be high in certain engagements, reporting KAMs regarding fraud may give fraud more prevalence than it should, taking away the focus on other areas

where the risk may be much higher. We note that ISA 701 KAMs have been a successful addition in the auditor's report, therefore we question whether the informational value of ISA 701 KAMs could be diluted due to the introduction of a specific subset of KAMs for matters related to fraud. Any fraud related matters would go through the 'normal' ISA 701 KAM filtering approach, questioning the need to create a specific subset.

While we support the evolution in the standard, we have several further reservations regarding the proposed requirements of ED-240. Starting with the heading above paragraph 63, our stakeholders noted that this title may give the wrong impression that in all cases this refers to fraud or suspected fraud identified whereas it may only refer to areas with identified risk of material misstatement due to fraud or identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud as per paragraph 61.

Additionally, we are concerned with the requirement in paragraph 61(c) as it does seem to give more prevalence to deficiencies in internal control that are relevant to the prevention and detection of fraud when, in some audits, other deficiencies in internal control could be more pervasive for the audit. Our stakeholders also flagged that this may lead to instances where the auditor reports information that was not previously reported by the entity causing a significant concern regarding the implications in such instances.

Furthermore, paragraph 64 states that in applying ISA 701, if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no KAMs related to fraud to communicate,

the auditor shall include the statement to this effect in the KAMs section of the auditor's report. We have concerns that such statement comes with several implications. Primarily that it could wrongly give the impression that the auditor has confirmed that there is no fraud. This in turn could have legal consequences particularly if fraud is later uncovered which could very well happen due to the inherent limitations of an audit. This could therefore result in potential impact on auditor liability and professional indemnity insurance premiums. Our stakeholders also noted that paragraph A175 is perceived to be more helpful than the actual requirement found in paragraph 64.

Our stakeholders noted that this causes further concern for those filing reports with the PCAOB. Many firms in the US were criticised for saying there are no Critical Audit Matters (CAMs) under the equivalent AS 3101 standard. More specifically, auditor's need to report in both the auditor's report and the annual report to TCWG with regards to CAMs. If these proposals are adopted, auditors will have two statements i.e., there are no CAMs and there are no CAMs related to fraud, causing further concern.

We also note that paragraph A165 states, "matters related to fraud are often matters that require significant auditor attention." Under the IAASB's CUSP drafting principles and guidelines, the term "often" denotes the second highest probability of occurrence. This seems to set up the expectation that in most instances a fraud-related key audit matter would be reported. This in turn runs the risk of the wording becoming boilerplate given that reporting will be done by default and not exception (see above regarding paragraph A165).

Overall, we consider that in order to appropriately enhance transparency regarding matters relating to fraud, this should be an ecosystem-wide approach, requiring, in particular, a corresponding responsibility for directors to report on their actions when it comes to fraud. Auditors can then be more transparent and report on those actions reported by directors. This also aligns with the view of our stakeholders noted in our thought leadership report Closing the expectation gap the way forward for fraud and going concern: A multistakeholder approach. In the absence of a corresponding responsibility being placed on directors (and recognising that this is outside of the direct influence of the IAASB), there is a risk that extending (or being perceived to extend) the requirements on auditors could further widen the expectation gap rather than narrowing it.

Transparency and the financial reporting ecosystem

Overall, we consider that in order to appropriately enhance transparency regarding matters relating to fraud, this should be an ecosystem-wide approach, requiring, in particular, a corresponding responsibility for directors to report on their actions when it comes to fraud. Auditors can then be more transparent and report on those actions reported by directors.

This also aligns with the view of our stakeholders noted in our thought leadership report Closing the expectation gap the way forward for fraud and going concern: A multistakeholder approach. In the absence of a corresponding responsibility being placed on directors (and recognising that this is outside of the direct influence of the IAASB), there is a risk that extending (or being perceived to extend) the requirements on auditors could further widen the expectation gap rather than narrowing it.

Furthermore, while the risk of material misstatement due to fraud could very well be high in certain engagements, reporting KAMs regarding fraud may inadvertently give fraud more prevalence than it should have, taking away the focus on other areas where the risk may be much higher. We note that ISA 701 KAMs have been a successful addition in the auditor's report, therefore we question whether the informational value of ISA 701 KAMs could be diluted due to the introduction of a specific subset of KAMs for matters related to fraud. Any fraud related matters would go through the 'normal' ISA 701 KAM filtering approach, without the need to create a specific subset.

Pennsylvania Institute of Certified Public Accountants

Disagree, with comments below

The committee is concerned with increasing the number of specific items to be reported under the KAMs, unless those items truly represent key aspects of the audit because reporting more detailed items could overshadow the value of other KAMs presented in the report. Therefore, the committee believes that any fraud-related KAMS should be evaluated in light of the overarching guidance for KAMs, not separately in the ED-240, because any incremental reporting requirement could be overlooked if it is not evaluated in the aggregate with other reporting requirements.

Separately, the committee does not support the requirement to communicate “that there are no key audit matters related to fraud to communicate,” as that would potentially mislead the financial statement users to believe that the auditor is providing more assurance than is required under the standards.

Communicating confidential client information is prohibited by the IESBA Code of Professional Conduct as well as state statutes in the United States. These requirements would further strain the auditor/client relationship and incentivize management to withhold information from the auditor.

The committee does not believe that the client-specific risks of material misstatement due to fraud should be communicated in the auditor's report as noted in paragraph 61 (a) due to client confidentiality concerns.

The committee supports the requirement for the auditor to refer to any disclosures related to the identification of fraud or suspected fraud made by management. However, the committee does not support the requirement to disclose the identification of fraud or suspected fraud in the auditor's report as proposed in paragraph 61 (b) due to client confidentiality concerns.

The committee does not support the requirement to communicate the identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud as indicated in paragraph 61 (c). This would result in the auditor communicating confidential client information.

CPA Australia

Disagree, with comments below

We reiterate our view in our Submission on the IAASB Public Consultation on Fraud and Going Concern in an Audit of the Financial Statements Expectation Gap that there is no need for routine communication of additional information on fraud in the auditor's report. This includes the auditor's responsibilities to communicate identified fraud, suspected fraud, or other fraud-related matters to those charged with governance (TCWG), as proposed in paragraphs 40(a) and 40(c) of ISA 700 (Revised).

Not all communications between the auditor and TCWG need to be made available to users, as many issues are resolved before the auditor's report is issued. Unresolved matters can be included as qualifications in the report if necessary. We believe the current standards adequately address transparency between the auditor and TCWG.

We also do not see the need for additional wording in the auditor's report regarding fraud considerations when there is no impact to report, as proposed in paragraphs 63 and 64 of ED-240. The extant standards already allow reporting of significant fraud matters in Key Audit Matters (KAMs). Therefore, we do not support changing the KAM section title to "Key Audit Matters Including Matters Related to Fraud." Revising the title and including a statement on fraud-related matters when there is no KAM related to fraud would be confusing for stakeholders, problematic for auditors and heightens the expectations gap. Moreover, users of the auditor's report may misconstrue any wording in an auditor's report to mean that the auditor is saying that an organisation is "fraud-free", something which the auditor simply cannot do and which is the primary responsibility of management and TCWG.

At best, the proposed revisions on transparency in the auditor's report would become a boilerplate, offering little informational value to users.

Institute of Singapore Chartered Accountants

Disagree, with comments below

Requirements over reporting of KAMs related to fraud

Communicating KAMs relating to fraud

The purpose of communicating key audit matters (KAMs) is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. We are concerned with the requirement under paragraph 63 to specifically identify fraud related KAMs as we believe that this may lead to a perception that the auditor has placed greater emphasis on and directed a greater work effort towards significant risks of material misstatement of the financial statements arising from fraud as compared to significant risks in respect of other aspects of the audit and/or those in respect of error. This elevation of fraud related matters over other aspects of an audit may have unintended consequences of widening the expectation gap in respect of the auditor's responsibilities in relation to fraud.

In addition, the requirement for the auditor to include suspected fraud as KAMs may give rise to the unintended consequence of the auditor reporting additional information that management has not disclosed. This may result in the auditor breaching the terms of client confidentiality and may even give rise to potentially serious adverse consequences, particularly if it is eventually concluded that there was no fraud. We recommend that considerations of such consequences be included in the auditor's assessment with respect to suspected fraud, with linkage to paragraph 14 and related application material in ISA 701.

Statement when there are no KAMs related to fraud

We disagree with the requirement under paragraph 64 stipulating that if there are no KAMs related to fraud to communicate, the auditor needs to include a statement to that effect in the KAMs section of the auditor's report. Currently, the auditor expresses an opinion that the financial statements as a whole are free from material misstatement, whether due to fraud or error. Hence, there is no need for such a separate statement and specific emphasis on this aspect of the audit as compared to the rest.

We have heard overwhelmingly strong concerns that such a statement may be misconstrued as an affirmative statement by the auditor that there is no fraud. This would perpetuate the misconception on the auditor's responsibility in relation to fraud and further widen the expectation gap. Concerns were also raised on legal implications in the event that auditor makes such a statement, but fraud is subsequently uncovered. These concerns may lead to unintended consequences of over-auditing.

In addition, to avoid including such a statement, auditors may be driven to include boilerplate disclosures on revenue and management override of controls (being default fraud risk areas) in the auditor's report, which do not enhance communicative value and may detract users of financial statements from important information set out within other KAMs.

Responsibilities of management vs auditors

We note that the section on auditor's responsibilities in the auditor's report has expanded significantly over the years due to revisions to the ISAs, but the section on responsibilities of management and directors is comparatively lean, especially in the area of fraud. It may be worthwhile to explore expanding on the responsibilities of management and directors in auditor's report to raise awareness that the primary responsibility for preventing and detecting fraud lies with management and directors.

With reference to the comments under point 1(b), the requirement for such a statement in the auditor's report as required by paragraph 64 goes beyond what management is required to disclose. If the auditor is required to make such a statement, management should be required to make a similar statement. However, we anticipate that management may have similar concerns in respect of legal and other implications.

Lastly, concerns were raised that the usage of the terms "identified fraud" and "suspected fraud" may also perpetuate the misconception that the auditor is expected to detect all fraud when the focus is only on material fraud. In this regard, we suggest including the word "material" to these terms.

Accountancy Europe

Disagree, with comments below

While we recognize that the enhanced transparency in the auditor's report is in the public interest, the existing KAMs mechanism in ISA 701 sufficiently covers fraud-related matters that were of most significant in the audit. In this regard, there is no added value in having a sub-section under KAMs specific to fraud. This may lead to confusion for the users of financial statements and widen the expectation gap with regards to the role of the auditor in addressing fraud.

There is also a risk of creating an expectation from the auditor to provide original information in the auditor's report that has not been disclosed by the entity in its financial statements or elsewhere. This may not be legally possible, due to confidentiality requirements.

In addition, the communication of the absence of a KAM related to fraud in the auditor's report will be interpreted differently by users, some of which may wrongly read this as a conclusion that no instance of fraud has occurred or been identified during the period covered by the financial statements. Such a communication

could also have the unintended consequence of having boiler plate texts that do not include any engagement-specific information and hence do not deliver any added value.

Chamber of Auditors of the Czech Republic

Disagree, with comments below

We do not believe it would be beneficial to have a subsection specific to fraud in the Key Audit Matters section. This could lead to higher expectations by users of the financial statements regarding the auditor's responsibilities in relation to fraud. At the same time, if this subsection states that there are no key audit matters relating to fraud to communicate, it may lead users of the financial statements to believe that no fraud occurred during the accounting period.

Institute of Chartered Accountants in England and Wales

Disagree, with comments below

ICAEW supports enhanced transparency in the auditor's report where the matters communicated are of demonstrable benefit to financial statement users and serve the public interest. However, we believe that the proposals in ED-240 Paras. 61 – 64 are fundamentally flawed.

ED-240 acknowledges that an auditor 'does not make legal determinations of whether fraud has actually occurred' (ED-240 Para. 6). However, we believe that the proposals require auditors to make what is, in effect, a legal determination in the auditor's report. A statement that there are no fraud-related Key Audit Matters (KAM) to communicate indirectly requires auditors to determine whether a fraud has taken place. The audit opinion is not a fraud opinion. It is an opinion on whether financial statements as a whole are free from material misstatement, whether due to fraud or error. The inclusion of a section on fraud-related KAM under an 'appropriate subheading that clearly describes the matter relates to fraud' or a statement that there are no fraud-related KAM to communicate undermines the understanding of this key concept among stakeholders

As acknowledged in ED-240 Paras. 9 – 11, an audit is not capable of detecting all fraud. Stakeholders may misinterpret an explicit statement that there are no fraud-related KAM as meaning that the financial statements are fraud-free. Furthermore, there is a risk that a regular KAM might encourage auditors to hide behind standard wording, where currently there is no such shield.

If auditors are required to report the presence or absence of fraud-related issues in the auditor's report, they may need to update their letters of engagement to reiterate what an audit is capable of achieving.

Furthermore, confidentiality laws in many jurisdictions preclude the auditor from reporting certain fraud matters (ED-240 Para. A178). The requirement of ED-240 Para. 64 conflicts with this. Auditors should not be put into the position of having to state, misleadingly, that there are no KAM related to fraud to communicate.

Similarly, enhanced transparency should not encourage auditors to report fraud-related matters simply for fear of the potential legal repercussions should a fraud be uncovered following an audit report which explicitly highlighted no fraud matters. The result in practice is likely to be extensive boilerplate relating to the presumed fraud risks or other generic fraud matters with little value to users of the financial statements and which deflect from genuinely significant matters unrelated to fraud.

Fraud is rarely the primary risk facing an entity. PwC's Global Risk Survey 2023 states that the top threats facing global businesses over the next 12 months are inflation, cyber risks and macroeconomic volatility. Fraud does not even feature in the top eight threats. IAASB's proposals might suggest that fraud issues have a higher profile or are the predominant risk for companies, which is demonstrably not the case.

If an auditor judges a matter relating to fraud to be of most significance in the audit, its communication to TCWG is already covered by the existing requirements of ISA 701. Rather than laying out fresh criteria for a fraud-related KAM, ED-240 should direct its attentions to the application of the existing requirements through the fraud lens.

The revisions may also set a significant precedent when it comes to auditors providing original information, potentially raising expectations around other categories of original information that auditors should disclose, including through the requirement for auditors to consider ‘significant deficiencies in internal control that are relevant to the prevention and detection of fraud’ in determining key audit matters relating to fraud (ED-240 Para. 61(c)). In this case, the auditor may be disclosing more information than management is required to disclose in certain jurisdictions.

Consultees observed that these proposals appear to be an indirect attempt to enforce director responsibilities for implementing, maintaining, and monitoring a robust system of controls over fraud prevention and detection via their auditors. IAASB recognises the need to discourage boilerplate language in ED-240 Para. A173, which states that auditors should avoid ‘generic or standardized language’. The effective requirement for an auditor to say something about fraud is likely to lead to the very boilerplate reporting IAASB seeks to discourage.

IAASB should seek positive outcomes, in the form of useful auditor reporting, rather than negative ones such as ‘avoiding standardised language’. Avoiding standardised language is not achieved by finessing the wording of auditing standards. It is achieved by a complex set of behavioural dynamics involving auditors, the companies engaging them, the regulators inspecting them and investors. Standardised language is a safe default position. It is almost inevitable that auditors and companies will seek safety by emulating both themselves and each other over time, but this does not mean that the process of getting there is not worthwhile.

Key Audit Matters

ICAEW supports improved transparency relating to matters of genuine importance to users of financial statements in the auditor’s report. We believe this can be best achieved by applying a ‘fraud lens’ to the existing ISA 701 requirements.

We do not agree with IAASB’s proposals for fraud-related disclosures in the auditor’s report (ED-240 Paras. 61 – 64). The audit opinion is not a fraud opinion. Requiring auditors to disclose the presence or absence of Key Audit Matters (KAM) clearly described as relating to fraud singles fraud out as having particular importance to businesses and auditors. ICAEW is not persuaded by the suggestion that fraud matters more than say, cyber risks or inflation. The proposals appear to suggest that this is so.

It is important that users of financial statements understand the inherent limitations of an audit. Rightly or wrongly, users may mistake a statement to the effect that there are no KAM related to fraud as a clean bill of health and conclude that no fraud occurred. This is not a desirable outcome.

South African Institute of Chartered Accountants

Disagree, with comments below

There is an appreciation of why transparency in the audit report is required as there is a demand from users of financial statements for more transparency regarding fraud-related matters. ED-240 could result in a change in behaviour from auditors which could promote consistency in reporting on fraud, especially for ongoing cases that have not been confirmed, and that currently may be reported inconsistently.

Requiring auditors to disclose their work on fraud could lead to greater accountability and diligence in the audit process. While we also accept that there are other fundamental principles of the code of conduct such as integrity, which require the auditor not to be associated with a false or misleading audit report, not reporting KAM relating to fraud where applicable could be misleading if omitted. We are of the view that the enhancements made to ISA 701 already provides for increase in reporting of KAMs related to fraud. Perhaps the ED-240 should elaborate on the fundamental responsibilities of the auditor to comply with ethical requirements.

We disagree that the proposed KAM requirements as the only option in ED-240 will achieve this transparency because: the practicality of reporting fraud related KAMs could be a challenged , especially when investigations are ongoing and the outcome is uncertain. This could lead to difficulty in determining what to report and how to report it. This may further attract litigation against the auditor when there are grey areas or uncertainties. The disclosure of suspected fraud or ongoing investigations could negatively impact on client's reputation and share price, especially if the suspicions are not substantiated or are still under investigation.

The standard is unclear on what is required of the auditor if the suspicions are not substantiated or are still under investigation. In cases of suspected fraud, at what point would the suspicion be enough to warrant consideration as a KAM?

There are concerns about confidentiality principles in the Code of Conduct regarding including a KAM on fraud on the audit report. If you have identified a possible fraudulent transaction, how do you balance the principle of confidentiality and requirement for the auditor to investigate the fraud when the auditor is only required to provide reasonable assurance. The requirement to report KAMs on fraud-related matters could significantly change the audit process, potentially requiring additional procedures to support the statements made in the audit report.

There is a view that it is inconsistent to require auditors to make statements about fraud in their audit reports when directors are not held to the same standard of disclosure in the financial statements. Some members were of the view that the standard should not be prescriptive as to when the auditor should disclose a KAM but instead should allow the auditor to exercise their professional judgement.

Currently, for example, management already has a section in the financial statements related to going concern. A similar approach should be considered for management if a similar requirement is being placed on the auditor to include a KAM related to fraud in the audit report. There is a concern that it may not be appropriate to require auditors to make statements about fraud in their reports when directors are not held to the same standard of disclosure.

We are of the view that users of the audit report, especially those without a financial background, might misinterpret the KAM on fraud as an assertion that this is a legal determination by the auditor.

The IAASB should consider including guidance as part of Par. 64 or Par. A 175 to clarify the link to ISA 701. Par 12. with regards to circumstances where the opinion has been modified because of the same matter that would have been included as a KAM.

“Par. 61. In applying ISA 701, 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. A162–A168)”

Par. 64 could be misinterpreted by an average user as there being no fraud risks in the audit or even that the auditor is of the opinion that there are no instances of fraud in the financial statements.

The IAASB should consider removing the word “significant” and rather refer to “ matters requiring auditor attention”.

ASEAN Federation of Accountants

Disagree, with comments below

The proposal to use the KAMs section of the auditor’s report to increase transparency about matters related to fraud is reasonable and preferable to having a stand-alone section of the auditor’s report. However, the existing title “Key Audit Matters” should continue to be used instead of modifying it to “Key Audit Matters Including Matters Related to Fraud”. Doing so might give the wrong impression that the auditor has a dedicated task to detect fraud in the audit and must include fraud discussion under key audit matters. This might deepen the already existing misconception on the role of the auditor over fraud. The requirement in paragraph 64 of ED-240 may further increase the expectation gap. The statement that there are no KAMs related to fraud may be misconstrued as an assurance that there is no fraud and is in contradiction with the inherent limitations of an audit as described in paragraphs 10- 11 of ED-240. As such, we recommend that this requirement be removed.

In addition, it would be helpful for the IAASB to include illustrative examples of KAMs that have a fraud element.

Center for Audit Quality

Disagree, with comments below

Increasing transparency in the auditor’s report

We are supportive of the IAASB’s efforts to increase transparency in the auditor’s report regarding the auditor’s fraud-related responsibilities and procedures. However, we have concerns regarding the proposed requirements.

Broadly, we believe that ISA 701 is sufficient without the addition of the proposed incremental requirements in ED-240 related to Key Audit Matters. When significant fraud-related matters meet the criteria set out in ISA 701, such matters would be expected to be reported as KAMs today. As a result, the inclusion of KAM guidance in ED-240 could be viewed as calling into question the current guidance in ISA 701 and is unnecessary. Our general concerns are as follows:

ED-240.64 and conforming amendments to ISA 701 require that if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters related to fraud to communicate, they shall include a statement to this effect in the Key Audit Matters (KAMs) section of the auditor’s report. We are concerned that the inclusion of definitive negative assurance statements such as this in the auditor’s report has the potential to result in confusion for financial statement users. Such statements may inadvertently result in users of the auditor’s report making inappropriate assumptions or conclusions about what that statement means (e.g., when no fraud-related KAM is identified, a reader could reach inappropriate conclusions such as that no fraud risk factors and/or risks of material misstatement due to fraud were identified, that no fraud was identified/had occurred, and/or that no fraud-related procedures were deemed necessary or performed) and could generally exacerbate the existing expectation gap. Additionally, we believe that such language is unnecessary, as the auditor’s conclusion that no fraud related KAMs were identified would be clearly apparent to a user based on the description of the KAMs that are communicated.

ED-240.63 and conforming amendments to ISA 701 require that the auditor shall describe each key audit matter, using an appropriate subheading that clearly describes that the matter relates to fraud, in a separate

section of the auditor’s report under the heading “Key Audit Matters Including Matters Related to Fraud.” We do not see the benefit of requiring a specific heading in the audit report and believe that reporting KAMs, whether related to error, fraud, or both, under the heading “Key Audit Matters” remains appropriate. We are concerned that requiring a more specific heading, as proposed, gives a level of prominence to matters related to fraud that may or may not be appropriate given everything else that may be involved in a particular audit.

We also have the following concerns regarding the specific requirements in ED-240 related to KAMs:

While not explicitly stated, the language in paragraphs 61 and 62 of ED-240 is tantamount to a requirement to include at least one fraud-related KAM. We believe that expecting all audit reports, except in rare circumstances, to include at least one fraud-related KAM will inevitably result in boilerplate language that is not meaningful to a reader of an audit report and will not result in the transparency the IAASB is aiming to achieve. This expectation also removes the professional judgment of auditors to critically assess what should be a KAM.

Proposed paragraph 62 of ED-240 requires an auditor to determine which of the matters determined in accordance with proposed paragraph 61 were of most significance and, therefore, are KAMs. We interpret this to mean that, based on proposed paragraphs 61(b) and (c), an auditor would be expected to report fraud, or even suspected fraud, and internal control deficiencies in their audit report. We believe such a requirement is not appropriate, as it should not be incumbent on auditors to report information about the company that company management is not required to share publicly.

We recommend that the Board consider striking proposed paragraphs 61 through 64 of ED-240 and the related application material in ED-240.A162 through .A179.

Additionally, we recommend that the Board consider making the following changes to proposed ISA 701 (Revised) (deletions are struck through, additions are marked as underlined):

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor’s report under the heading “Key Audit Matters Including Matters Related to Fraud,”⁵⁹ unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor’s report shall state that:

(a) Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements [of the current period]; and

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33)

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor’s report under the heading “Key Audit Matters Including Matters Related to Fraud.” (Ref: Para. A57–A59)

A8A. ISA 240 (Revised)⁶⁰ includes requirements for the auditor to determine which matters related to fraud, from those communicated with those charged with governance, are key audit matters. The requirements and guidance in ISA 240 (Revised) refer to, or expand on, the application of this ISA.

A18A. ISA 240 (Revised)⁶¹ notes that matters related to fraud are often matters that require significant auditor attention and that, given the interest of users of the financial statements, one or more of the matters

related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 61 of ISA 240 (Revised), would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters Including Matters Related to Fraud

[Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] We have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report.

A58A. ISA 240 (Revised) 66 includes guidance that illustrates the presentation in the auditor's report if the auditor has determined there are key audit matters to communicate but these key audit matters do not relate to fraud.

We understand that the IAASB believes it is important to clarify and highlight how the auditor's fraud-related procedures should be considered in their determination and communication of KAMs and we are supportive of this objective. To this end, we are supportive of the inclusion of certain proposed additions to ISA 700 and ISA 701, including: the addition of the phrase "which includes matters related to fraud" or "including matters related to fraud" in various headings and paragraphs throughout proposed ISA 700 (Revised) and 701 (Revised) (other than related to the heading of the auditor's report, as discussed above); the language in proposed AS 701.A18A (subject to the suggested edits described above); and the language in proposed ISA 701.A21. We believe that the inclusion of such language in ISA 700 (Revised) and ISA 701 (Revised) will serve as an effective reminder for auditors with respect to how their fraud-related procedures should be considered in their determination and communication of KAMs, such that the inclusion of language and requirements related to KAMs in ED-240 is unnecessary.

International Federation of Accountants

Disagree, with comments below

We are generally supportive of improving transparency in matters relating to fraud in audit reports where this provides useful information to users and could be beneficial to the public interest, but the proposals made in ED-240 in this area will be problematic in many cases. Ultimately, the focus on improving what is reported by the auditor would not be an effective way of dealing with the underlying problems caused by fraud which could only be addressed by improvements throughout the financial reporting ecosystem. Auditing standards will have a limited impact on addressing the underlying problems with aspects management and TCWG have the greatest responsibility for. As such, the proposals within ED-240 with regards to audit reporting, even if in response to regulatory pressures, may give the wrong impression to those placing reliance upon audit reports.

We have several specific concerns. Inclusion of key audit matters (KAMs) regarding fraud in every report within scope of ISA 701 or requiring disclosing that there are no such KAMs in all reports within scope could encourage boilerplate disclosure. Paragraph 63 requires a subheading within KAMs related to fraud and paragraph 64 requires disclosures that there are no KAMs related to fraud where this is the case. These requirements would serve to raise the profile of fraud, even where the risks are not significant, above other potentially more important risks or matters, including other KAMs. Further, we note the references are to fraud rather than 'risk of material misstatement' due to fraud or 'material fraud' This would be problematic as the implication could be that KAMs should be reported for insignificant fraud. Overall, these requirements may not result in meaningful disclosures and could detract from other more important matters discussed in KAMs. In

this way, the proposals may not be conducive to improved transparency and could actually be detrimental to the public interest. The length of the audit report has been increasing in response to amendments to standards, and this could ultimately have an impact on the utility of this report.

More generally, reporting of suspected fraud in the audit report could open up auditors to accusations of false reporting, libel or defamation if such suspicions are not subsequently validated. Returning to the requirements of paragraph 64, the statement required if there are no KAMs related to fraud may be misinterpreted by users as the auditor signing off that there is no fraud. As such, this could serve to increase the expectation gap and lack of understanding of auditor responsibilities. There would also be a question of the judgment of different stakeholders at play which could impact this requirement. A business could experience fraud that the auditor would be aware of and consider trivial, but this may be viewed as an important factor so worthy of being a KAM by some stakeholders. With the benefit of hindsight, they may then argue that failure to disclose as a KAM resulted in a deficient audit report, where this would not be the view of the auditor. In areas like fraud, it is common for different actors to draw a line for what is important or significant in a different place, so the failure to make clear the reporting relates only to material fraud could put auditors in a difficult position.

There is also a separate challenge where disclosure of KAMs related to fraud may be problematic to the auditor. For instance, in situations where there is an ongoing investigation into fraud, the auditor may be prevented from making a disclosure about fraud that has been identified, due to legislation or other requirements. However, the proposals in ED-240 would either force them to disclose or state there were no KAMs regarding fraud, both courses of action would be problematic and would not be in the public interest.

Institute of Chartered Accountants of Scotland

Disagree, with comments below

Key audit matters are dealt with in ISA 701, and there should be no need to revisit this in ISA 240. The test as to whether a matter is a KAM or not should solely be dealt with in accordance with the requirements of ISA 701 and hence avoid unnecessary complexity and confusion.

Although we believe that ED-240 does not create a required presumption that the auditor will identify a key audit matter related to fraud, we are aware of differing views on this matter. This confusion is not helped by the content of paragraph A170 of ED-240 which strongly suggests that such a KAM should be identified.

“A170. One of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users’ understanding of the financial statements as a whole. As users of financial statements have highlighted their interest 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 61, would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.”

We also have concerns over the inclusion in ED-240 of the requirement for an auditor to include suspected fraud as KAMs. This may lead to the risk of original information being reported by the auditor and the resultant practical consequences.

California Society of Certified Public Accountants

Disagree, with comments below

There is concern with including a statement in the auditor's report (KAM paragraph) related to fraud, stating there were no fraud related matters. This implies a conclusion to a level of engagement that is beyond the scope of a financial statement audit.

9. Individuals and Others

John Keyser

Disagree, with comments below

It is unclear whether the auditors must always identify at least one fraud risk to be a CAM. Proposed paragraph 62 appears to require the auditor to select items for disclosure as Key Audit Matters from the items identified in proposed paragraph 61. Since all of the matters listed in paragraph 61 are fraud related, it seems that the auditor is always expected to identify and disclose at least one fraud related matter as a Key Audit Matter in the audit report. My concern is that, for a particular entity, none of the matters that should be considered Key Audit Matters have anything to do with fraud, but instead relate to other nonfraud sources of potential misstatement. I don't think that the risk of fraud is a key audit matter for every entity.

I disagree with the requirement in proposed paragraph 64 to include a statement that there are no key audit matters related to fraud. I don't think there is a key audit matter related to fraud in every audit. This requirement may incentivize auditors to put a boilerplate key audit matter (KAM) related to fraud in order to avoid having to say that there are none. For example, since management override of controls is a risk present in every audit, this requirement may lead auditors to create a management override of controls KAM that they use in every audit where a more specific fraud KAM is not identified. I don't think that this would improve audit quality or assist users in understanding the audit.

5 No response

3. Regulators and Audit Oversight Authorities

European Securities and Markets Authority

6. Public Sector Organizations

Riksrevisionen (Swedish National Audit Office)

No response

7. Member Bodies and Other Professional Organizations

Fraud Advisory Panel

No response

9. Individuals and Others

Dr. Rasha Kassem

No response