

Fraud – Question 6

6. In your view, should transparency in the auditor's report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?

Q06 Agree**2. Investors and Analysts****CFA Institute**

Agree (with no further comments)

Eumedion

Agree (with no further comments)

3. Regulators and Audit Oversight Authorities**Independent Regulatory Board for Auditors – South Africa**

Agree (with no further comments)

Securities and Exchange Commission of Brazil

Agree (with no further comments)

4. Jurisdictional and National Auditing Standard Setters**Nordic Federation of Public Accountants**

Agree (with no further comments)

5. Accounting Firms**Moore Global Network**

Agree (with no further comments)

7. Member Bodies and Other Professional Organizations**Institute of Chartered Accountants of Ghana**

Agree (with no further comments)

Instituto Nacional de Contadores Públicos de Colombia

Agree (with no further comments)

Malaysian Institute of Certified Public Accountants

Agree (with no further comments)

Virginia Society of Certified Public Accountants

Agree (with no further comments)

Yes, it will provide with a greater transparency.

9. Individuals and Others

Dr. Rasha Kassem

Agree (with no further comments)

Moises Gonzalez Mercado

Agree (with no further comments)

Q06 Agree with comments

1. Monitoring Group

International Organization of Securities Commission

Yes, consistent with our comment letter on the IAASB's Exposure Draft: Proposed Narrow Scope Amendments to the International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code, we support the IAASB's proposal to align the differential requirements already established within ISA 701 for listed entities today with the definition of a PIE and subsequently also support the proposed differential requirements on transparency in the auditor's report about matters related to fraud proposed in ED-240 be applicable to audits of financial statements of PIEs.

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Agree, with comments below

This will be in line with our jurisdiction requirements for reporting Key Audit Matters.

Committee of European Auditing Oversight Bodies

Yes - in addition to our response to Q5, we support the reporting of fraud related KAMs for all PIE audits.

Financial Reporting Council – United Kingdom

Agree, with comments below

We support transparency in the auditor's report about matters related to fraud introduced in ED-240 being applicable to audits of financial statements of PIEs. Having regard to the definition of PIEs in the IESBA Code and the IAASB's proposal to closely align with that and to expand the applicability of ISA 701 to audits of financial statements of PIEs [which we support], we believe it is in the public interest for stakeholders with an interest in all PIEs to have the same transparency as those interested in listed entities.

Irish Auditing & Accounting Supervisory Authority

Agree, with comments below

Yes - in addition to our response to Q5, we support the reporting of fraud related KAMs for all PIE audits.

4. Jurisdictional and National Auditing Standard Setters

Institut der Wirtschaftsprüfer in Deutschland

Agree, with comments below

In alignment with the approach taken in the PIE Track 2 project at the IAASB, we agree that any transparency requirements for the auditor's report be expanded from listed entities to PIEs. However, we refer to our comment template on PIE Track 2 with respect to our concerns about the definitions and requirements relating to PIEs as proposed in the corresponding exposure draft.

Japanese Institute of Certified Public Accountants

Agree, with comments below

Considering the objectives of the exposure draft (ED) for "Listed Entities and PIEs (Track 2)" project published in January 2024 and other factors, we agree with applying the proposal to audits of financial statements of entities other than listed entities, i.e., PIEs. However, as we also commented on the ED for "Listed Entities and PIEs (Track 2)" project, we propose that the IAASB provide flexibility by permitting the jurisdiction not to extend KAM requirements to the audits of certain PIEs which have a limited number of intended users of the auditor's report, such as non-publicly traded entities, even if the jurisdiction decided to refine the scope of the PIEs to include those entities.

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

Agree, with comments below

We agree that transparency in the auditor's report about matters related to fraud should be applicable to public interest entities, as defined using the global definition. We refer you to our response to the IAASB's public interest entity narrow scope amendments.

Royal Dutch Institute of Chartered Accountants

Agree, with comments below

Positive remark:

In case of audits of financial statements of listed and public interest entities we support enclosing key audit matters relating to fraud risks when appropriate.

Constructive critical remarks:

In the Netherlands, for statutory audits, we have introduced a mandatory section on the audit approach to fraud risks as of reporting periods beginning on or after 15 December 2021. This section is not included in the Key Audit Matters section but in a separate section, similar to the mandatory section going concern audit approach. This section is to be tailored to the specific entity and may include:

identified fraud risks; reference to disclosures in the financial statements, if any; an overview of the audit procedures performed to address the identified fraud risks; indication of the outcome of the performed procedures; major observations relating to the matter.

We have already evaluated practices and experience in auditor's reports for reporting periods 2021 and 2022. See answer 5.

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.

5. Accounting Firms

BDO International

Agree, with comments below

We welcome the proposed enhanced transparency for listed entities by including fraud considerations in the auditor's report. We would draw your attention to the fact that, in some jurisdictions (e.g., Netherlands, UK), local audit standards are already in scope where fraud risks that required significant auditor attention are communicated in the auditor's report for all statutory audits. Experience in the UK and the Netherlands has shown that mandatory reporting about fraud matters sharpens the focus on fraud for both the audit team as well as the entity. We also see that reporting about fraud matters in the auditor's report contributes to improved transparency from audited entities about fraud risks, for example, in their annual report.

Therefore, due to the significance of fraud related matters for external stakeholders and the general public, we recommend that the requirements related to reporting on fraud in the auditor's report be expanded at least to PIEs, if not to all statutory audits using a staged implementation (i.e., first for PIEs and then followed by other audits).

SRA

Agree, with comments below

We refer to our detailed comments on part 5.

7. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants

Agree, with comments below

We understand the idea of extending the requirements to entities other than listed entities. However, there may be potential consequence of giving rise to less meaningful KAMs if the requirement is extended to all PIEs as some entities that may fall into the broad categories of the PIE definition may be non-complex in nature or share common risks.

As such, we recommend that the reporting of matters relating to fraud introduced in ED-240 be limited to publicly traded entities and complex PIEs. Non-publicly traded entities and less complex PIEs can still opt for voluntary disclosures in the audit report as per paragraph 5 of ISA 701 (Revised).

Asociacion Interamericana de Contabilidad

Agree, with comments below

In our view, the transparency in the auditor's report about matters related to fraud introduced in ED-240 should be apply to audits of financial statements of entities other than listed entities, including Public Interest Entities (PIEs). This expanded application would promote confidence in the financial statements of these entities, which often have a significant impact on a broad group of stakeholders, including investors, employees and regulators.

The inclusion of details on how addressed fraud in audits provides these stakeholders with a stronger basis for assessing the integrity and reliability of the financial information presented. In addition, it could help prevent future fraud by making entities more aware of the potential consequences of malpractice and the likelihood of detection.

Moreover, this transparency could serve to align expectations more closely between auditors and users of audited reports, thereby mitigating the excessive expectations that often exist in terms of the perception of the auditor's role with respect to fraud. This approach not only enhances audit quality and credibility, but also strengthens accountability and corporate governance in all industries, regardless of whether a company is publicly traded or not. Therefore, broadening the application of these provisions of ED-240 would be beneficial to improving transparency and confidence in the broader financial arena.

Botswana Institute of Chartered Accountants

Agree (with no further comments)

In our view, ED-240 should be applicable to audits of financial statements of entities other than listed entities, such as PIEs to enhance auditor's responsibilities towards fraud. This should also further be extended to all other audits of entities who do not fall under the category of 'listed entities' or 'PIEs' such as SMEs.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer 6: Yes, transparency in the auditor's report on issues related to fraud should also be applied to Public Interest Entities (PIEs).

The consultation refers to PIEs as an example, so it could be interpreted that the requirement also refers to all companies. Although in the consultation carried out in September 2022 (Document 20220912-IAASB-Agenda_Item_6-Fraud_Issues_Paper-final.pdf) 8 respondents agreed that it should be applied to all entities, we share the final result with application to the PIE other than the that are listed on the stock exchange and not to all entities.

Institute of Certified Public Accountants of Rwanda

Agree, with comments below

Since the requirements in ED-240 are intended to be applied in addition to or alongside ISA 701, we believe that they should effectively be applied to audits of financial statements of listed entities as well.

Institute of Certified Public Accountants of Uganda

Agree, with comments below

We agree that the proposed enhanced transparency in the auditor's report about matters related to fraud should apply to audits of financial statements of entities other than listed entities. However, we recommend that great effort be taken to ensure that the proposed requirements in the auditor's report are consistent with the requirements in the ISA 701 regarding the communication of Key Audit Matters (KAMs).

Institute of Singapore Chartered Accountants

Agree, with comments below

We are supportive of extending the requirements to entities other than listed entities. However, in line with our comments to IAASB's ED on Proposed Narrow Scope Amendments to International Standards as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code, instead of extending the requirements to all public interest entities, the level of public interest in the entity should be considered in extending the additional auditing requirements.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Agree, with comments below

In line with the current proposals to introduce new definitions for PIE and publicly traded entities into the ISAs and align them with the IESBA Code, we understand the thought process for the transparency requirements in ED-240 to be extended to other PIEs in addition to listed entities.

However, there may be potential consequence of giving rise to less meaningful KAMs if the requirement is extended to all PIEs as some entities that may fall into the broad categories of the PIE definition may be non-complex in nature or share common risks. This may lead to standardised or boilerplate KAMs which could undermine their purpose and further increase the expectation gap or that the transparency requirement in ED-240 may be less relevant for non-complex entities.

As such, we recommend that the reporting of matters relating to fraud introduced in ED-240 should be limited to a 'publicly traded entity'.

As per the current paragraph 5 of ISA 701 (Revised), the application of ISA 701 (Revised) is voluntary for any entities other than listed entities or as required by the law. Extending these requirements to PIEs beyond publicly traded entities, which encompass entities of diverse operations, nature, and size, might result in disproportionate costs outweighing benefits that may also differ within jurisdictions.

Auditors/regulators can exercise discretion/implement local regulations to determine whether disclosing such matters would bolster stakeholders' confidence in the audit and the audited financial statements of these entities.

Pan-African Federation of Accountants

Agree, with comments below

We support enhanced transparency requirements related to fraud in ED-240 for PIEs and, where relevant, for all entities subject to our comments in response to question 5 above.

South African Institute of Chartered Accountants

Agree, with comments below

Extending transparency requirements in the auditor's report about matters related to fraud to audits of entities other than listed entities, such as Public Interest Entities, is essential for promoting trust, accountability, and confidence in financial reporting and auditing processes. It helps protect stakeholders' interests and contributes to the overall integrity and stability of the financial system.

Public Interest Entities, by definition, serve the public interest and often significantly impact various stakeholders, including investors, creditors, employees, and the general public. Transparency in the

auditor's report helps build trust and confidence among these stakeholders by ensuring the audit process is thorough and effective in detecting and addressing fraud.

Like listed entities, Public Interest Entities are susceptible to fraud due to their size, complexity, and significance in the economy. Fraudulent activities within these entities can have far-reaching consequences, making it essential to provide transparency in the auditor's report about the effectiveness of the audit procedures in detecting and addressing fraud risks.

Public Interest Entities often operate in regulated environments and are subject to higher scrutiny regarding their financial reporting and governance practices. Transparency in the auditor's report holds the entity's management and auditors accountable in preventing, detecting, and addressing fraud.

Investors and other stakeholders rely on audited financial statements to make informed decisions about their investments and business relationships. Transparent disclosure about fraud matters in the auditor's report helps maintain market confidence by providing insights into the reliability of the financial information presented by the entity.

9. Individuals and Others

Albert Bosch

Agree, with comments below

See the response to the previous question.

Altaf Noor Ali Chartered Accountants

R6: Yes.

6.1 We recommend KAM in the auditor's report of all entities including public interest entities (PIEs). KAMs provide a quality space to auditor to communicate with user the matters of importance.

6.2 We request the national regulator (The Securities and Exchange Commission of Pakistan) and the accounting regulator (The Institute of Chartered Accountants of Pakistan) to enforce this requirement proactively for all including PIEs and the State Enterprises).

Q06 Neither agree nor disagree

2. Investors and Analysts

Corporate Reporting Users' Forum

Neither agree/disagree, but see comments below

We believe the same level of transparency in the auditor's report about the matters related to fraud should be applied in case of entities with various stakeholders including shareholders and creditors. That said, KAM may not necessarily be required to be included in the auditor's report for PIEs other than listed entities. We hope that consistent application of transparency in the auditor's report about matters on fraud should be achieved through the revisions of relevant ISAs.

5. Accounting Firms

Crowe Global

Where an entity is recognised by regulation or standards as a PIE then there should be transparency in the audit report about matters related to fraud as required by ED-240.

6. Public Sector Organizations

Government Accountability Office – United States

As noted in our response to question 5, the reporting on fraud that is material, whether quantitative or qualitative, is a requirement for an audit performed in accordance with GAGAS.

These include but are not limited to audits of federal, state, and local government entities within the United States.

Provincial Auditor Saskatchewan

We have the same concerns as noted in the response to question 5 above.

Riksrevisionen (Swedish National Audit Office)

Neither agree/disagree, but see comments below

It is unclear whether the question insinuates introducing mandatory KAMs for non-listed entities. If so the question needs to be addressed more broadly.

7. Member Bodies and Other Professional Organizations

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

Neither agree/disagree, but see comments below

Notwithstanding our response to question 5, in our view, if transparency in the auditor's report about matters related to fraud is introduced, then the requirements should be applicable to the same group of entities that ISA 701 applies to. In our joint submission to the IAASB on the ED PIE – Track 2 we expressed our view that the extension of KAMs to entities other than listed entities should be a jurisdictional matter and should therefore be decided at a local level.

European Federation of Accountants and Auditors for SMEs

Neither agree/disagree, but see comments below

While we support the expansion of transparency in the auditor's report about matters related to fraud to PIEs, we would not support any further extension to other entities more generally.

International Federation of Accountants

Neither agree/disagree, but see comments below

We support the expansion of transparency in the auditor's report about matters related to fraud to PIEs but would not support any further extension to other entities more generally. Any expansion needs to be carefully considered in light of some of the factors we have discussed elsewhere in this response, namely criticisms of the length of the audit report, the risk of 'boilerplate' disclosures, the risk of accusations of false auditor reporting where fraud has not been perpetrated if auditors declare there are no KAMs related to fraud and the challenge to the expectation gap.

9. Individuals and Others

Colin Semotiuk

The January 2024 IAASB ED – Proposed Narrow Scope Amendments incorrectly proposed to replace "listed entities" to "public interest entities." We suggest that public interest entities should be defined by law

or regulation. Under our definition of PIEs, matters related to fraud should not be required to be included in the auditor's report because many public sector auditors have communication tools within their mandate that allow them to communicate issues, such as matters related to fraud, outside their financial statement auditor's report. These methods are often more transparent and less rigid than a financial statement auditor's report and therefore have more benefit to users.

John Keyser

Neither agree/disagree, but see comments below

I think the requirement should be limited to PIEs.

Q06 Disagree

4. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants

Disagree, with comments below

As stated in our PIE Track 2 comment letter, while we appreciate the IAASB's endeavors to improve transparency, we question whether the requirement to communicate KAMs, including those related to fraud, would uniformly benefit all entities categorized as PIEs (particularly non-listed entities considered to be PIEs). The value derived from KAMs may differ significantly based on an entity's specific circumstances of it being treated as a PIE. For example, KAM reporting may not be particularly useful for owner-managed businesses, where stakeholders already have regular interactions with auditors. The potential benefits of KAMs for not-for-profit entities may not justify the associated costs, in particular taking into account the significant investment to methodologies and tools that firms which do not communicate KAMs today would be required to make.

Auditing and Assurance Standards Board Canada

Disagree, with comments below

As indicated in Question 5, we do not support separate requirements about key audit matters (KAMs) related to fraud in the auditor's report.

Furthermore, we do not support expanding transparency about matters relating to fraud in the auditor's report beyond listed entities. This is consistent with our views in our response letter to Exposure Draft, Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code, where we did not support expanding transparency about KAMs beyond listed entities.

The benefits of extending KAM reporting to non-listed entities may not justify the cost

We do not believe that sufficient evidence has been provided to demonstrate the public interest benefits of extending KAM requirements to non-listed entities to justify the costs. We, therefore, believe that more information is needed before the IAASB can extend KAM reporting beyond listed entities.

We acknowledge the support for extending the differential requirement for KAM reporting to apply to PIEs in the IAASB's Auditor Reporting Post-Implementation Review (PIR) survey. However, we note the following:

The IAASB's Auditor Reporting PIR survey was conducted in 2020, a time when KAM reporting was not yet effective in many jurisdictions. This circumstance was acknowledged in the IAASB's September 2021 Agenda Item 5, paragraph 9(c).

Subsequent studies conducted by various national standard-setters since the IAASB's Auditor Reporting PIR survey present a more nuanced perspective on the benefits and costs associated with KAM reporting for listed entities. For example, an independent research study undertaken in Canada titled "Lessons Learned from KAM Reporting on Audits of TSX-Listed Entities: Observations from the 2020 Canadian Experience," found limited benefits to KAM reporting.

Suggest:

Not extending KAM requirements in extant ISA 701 or ISA 240 beyond listed entities (or publicly traded entities).

Conducting a follow-up PIR survey to provide the IAASB with more substantive evidence of the public interest benefits of extending KAM reporting to entities other than listed entities to support the increased costs.

Australian Auditing and Assurance Standards Board

Disagree, with comments below

The AUASB's response to the IAASB's PIE Track 2 ED was not supportive of extending the extant differential requirements for communicating KAM to apply to PIEs rather than listed entities only.

In December 2022, the AUASB conducted an Auditor Reporting Post Implementation Review (PIR) and feedback from Australian stakeholders included:

KAMs should not be expanded to unlisted PIEs in the absence of clear evidence that there would be benefits for users. Stakeholders acknowledged that it is difficult to gather this evidence.

ISA 701 currently permits auditors of non-listed entities to voluntarily report KAMs, but this is done infrequently because KAMs are not considered valuable for such entities.

Whilst KAMs are not mandatory in the public sector, a number of public sector audit offices in Australia have adopted the reporting of KAMs for certain entities that they audit, noting they are an effective tool for increasing the transparency of auditors in the conduct of their work.

Austrian Chamber of Tax Advisors and Public Accountants

Disagree, with comments below

ISAs as global auditing standards should require consideration of KAMs only for listed entities (or publicly traded entities as per the IESBA's new PIE definition). Standard-setters and regulators in jurisdiction then may expand the scope of this mechanism depending on their respective needs and reporting requirements for different types of companies. In the European Union, for example, KAMs are communicated as appropriate by auditors of PIEs since 2017 according to article 10 of Regulation (EU) No. 537/2014.

This would lead to overemphasize fraud in the audit of financial statements in general and in particular for PIEs.

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

Finally, we do not support extending these auditor's reporting requirements beyond the remit of listed entities (i.e. not to all PIEs), because extending it beyond listed entities (i.e. to all PIEs) could create a misalignment between what the entity must publicly disclose and what the auditor has to say in its auditor's report.

Disagree, with comments below

The revision of ISA 240 must be coherent with the IAASB's initiative to revise the International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement, to be consistent with the revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code.

However, with the new and larger definition of PIE proposed in the revision project, there may be a risk that the auditor will become, through certain KAMs, first-hand provider to the Public of information not disclosed by the entity, as not all PIEs have the same requirements in terms of public reporting as listed entities (while listed entities have to report publicly any information that may have an incidence on the share price, other PIEs do not have that requirement and may not have communicated any information publicly). Therefore, we do not support extending transparency in the auditor's report about matters related to fraud introduced in ED-240 to all PIEs.

Hong Kong Institute of Certified Public Accountants

Disagree, with comments below

See comments in Q5, but should the IAASB decide to finalize the proposed requirement to enhance transparency in the auditor's report, it should only be extended to PIEs, but not to other entities that are not PIEs. The IAASB could consider adding in application material similar to paragraph A41 of ISA 700 (Revised) where the auditor may decide to communicate matters related to fraud in the auditor's report for other entities.

Instituto de Auditoria Independente do Brasil

Disagree, with comments below

Considering the transparency in the auditor's report is being suggested in the ED-240 through KAM and ISA 701 is mandatory only for listed entities, the consistency should be maintained. As a result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code, due to the lack of clarity about the adoption protocol, we do not believe the IAASB should consider expanding the transparency requirements in ED-240 to PIEs at this time. We believe that PIE definitions will vary greatly within jurisdictions, which could lead to material inconsistencies across the world. Furthermore, there is a risk of boilerplate KAMs becoming prevalent if those requirements are extended to all PIEs, rather than publicly traded entities only.

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, therefore we also disagree with intention to include into the auditor report for any entity, included entities other than listed entities.

Saudi Organization for Chartered and Professional Accountants

Disagree, with comments below

Taking into consideration our comment on the previous question, the level of awareness of the auditors' responsibilities in the entities that are other than PIEs (in specific small entities) and their stakeholders (e.g.

owners) is usually less if compared to those of PIEs' stakeholders. Therefore, the risks and concerns that we highlighted in our comments on the previous questions become more significant. Therefore, we think that extending and complicating the audit report with such proposed additional information in relation to fraud may highly result in unintended consequences.

Wirtschaftsprüferkammer

No, these requirements should not be extended beyond the scope of ISA 701.

5. Accounting Firms

Baker Tilly International

Disagree, with comments below

Scope should be for listed entities only – all PIEs is too broad and IAASB has not demonstrated the need to apply the changes to a broader scope than listed companies.

CohnReznick

Disagree, with comments below

We are supportive of the IAASB's efforts to increase transparency regarding the auditor's fraud-related responsibilities and procedures but wonder whether the auditor's report is the appropriate medium by which to do so, especially for non-listed entities.

We do not object to the IAASB's proposed changes to requirements relating to fraud for all entities, as the consideration of whether financial statements are materially misstated due to fraud or error applies to all entities, including non-listed entities (irrespective of whether they are PIEs or non-PIEs). However, we do not support having the same reporting requirements for non-listed entities, including those that are PIEs. This is because users of listed and non-listed entities may have different auditor reporting needs, and the associated time and costs related to reporting key audit matters (e.g., additional discussions with those charged with governance, or increased audit costs arising from additional auditor and firm procedures that need to be in place to communicate key audit matters). For example, having a fraud-related key audit matter in the auditor's report may not be particularly useful for owner-managed business, as its stakeholders would generally have direct and regular interactions with management and the auditor.

We suggest that the IAASB retain extant ISA 701 or consider our suggestion in response to question 5 above.

We acknowledge and appreciate the Board's efforts to address and illustrate scalability within ED-240. Except for the concerns raised in our responses to questions 4 to 6, we believe that the Board has appropriately integrated scalability considerations into the Proposed Standard.

Crowe

Disagree, with comments below

If the proposed report wording discussed in Question 5 is retained, we do not believe this should be applicable to audits of entities other than listed entities, such as PIEs. There are many different reasons why an entity could be determined to be a PIE and many different jurisdictions impacted. KAMs reporting may or may not be meaningful for the specific entity based on those variations.

Specifically, based on the proposed revised definition of PIEs, many non-public U.S. entities, such as insurance companies and certain financial institutions, would be considered PIEs. Requiring KAMs reporting

for these entities, including specifically the reporting of fraud KAMs, could be confusing in the US non-public audit space, where currently, KAMs reporting is voluntary. Further, the potential benefits of KAMs reporting may not justify the costs to develop methodologies to report KAMs.

Deloitte

Disagree, with comments below

As noted in our response to Question 5, we disagree with the IAASB's proposals related to disclosure of fraud matters in the auditor's report, including in the Key Audit Matters section, for any audit.

Ernst & Young Global

Disagree, with comments below

As stated in our comment letter submitted to the IAASB on 8 April 2024 in response to the Exposure Draft, Proposed Narrow Scope Amendments to International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs) and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code, we are not supportive of the IAASB adopting the definition of PIE at this time due to the lack of clarity about the adoption protocol. Therefore, we do not believe the IAASB should consider expanding the transparency requirements in ED-240 to PIEs at this time.

Forvis Mazars

Disagree, with comments below

Transparency in the audit report around fraud related matters should not be extended to entities other than listed entities, to which KAMs do not currently apply. In our view reporting fraud risks in a different category in KAMs unnecessarily elevates the importance of fraud and the auditor's role and responsibilities and we do not support similar reporting in entities to which KAMs do not currently apply.

Grand Thornton International

Disagree, with comments below

We do not agree with extending the extant differential requirements for communicating KAM (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED) to apply to PIEs. The definition of PIE as proposed in the Listed Entity and PIE Track 2 project ED may not be consistent with the definition of PIE for independence requirements, leading to inconsistencies within the auditor's report regarding whether the entity is treated as a PIE or not (see our response to Question 2 in our PIE Track 2 comment letter). Further, the IAASB has not shown that the benefits of communicating KAM outweigh the costs for PIEs or publicly traded entities other than listed entities.

We believe the differential requirement related to communicating KAM should only apply to listed entities. Accordingly, we believe there should be no changes to extant requirements related to communicating KAM, unless a cost-benefit analysis supports extending the requirements to PIEs and inconsistencies in the definition of PIE are resolved.

KPMG International

Disagree, with comments below

Notwithstanding our response to Question 5, we would not be supportive of explicitly extending these transparency-related requirements to be applicable to audits of financial statements of entities other than listed entities, e.g., PIEs, at the current time.

Firstly, we consider that such an explicit extension would be unnecessary, and may even be inappropriate, as ED-240 prefaces each of the requirements at paragraphs 61-64 with “in applying ISA 701”. Therefore, auditors would apply these requirements whenever they are applying ISA 701, i.e., when they are performing audits of complete sets of general purpose financial statements of listed entities, in the circumstances when they otherwise decide to communicate KAMs in the auditor’s report, as well as when required by laws or regulations to communicate KAMs in the auditor’s report, or when the auditor otherwise determines that it is appropriate to do so. Accordingly, we consider that, in the absence of a conforming amendment to ISA 701 to broaden its applicability to entities other than listed entities, it would be inappropriate to include a such a requirement within ED-240 itself, as otherwise this standard would no longer be aligned with the scope and purpose of ISA 701.

Furthermore, if such requirements were to be extended to a mandated broader set of entities, such entities would need to be clearly delineated, e.g., by developing definitions that are capable of consistent application on a global basis. We are not aware of projects to attempt to do this, other than for PIEs, therefore we would not recommend exploring this further at this time.

In respect of extending the requirements to PIEs, more specifically, we refer to the IAASB’s recent Exposure Draft, Proposed Narrow-Scope Amendments to ISQMs, ISAs and ISRE 2400R as a Result of Changes to the IESBA Code, which proposes a revised definition and concept of a PIE as well as to extend the differential requirements of the IAASB standards for listed entities to PIEs. In our response to that Exposure Draft we state that we do not, at the current time, support adopting the proposed definition of a PIE or extending the applicability of the differential requirements in the IAASB standards beyond listed entities because we believe that a global baseline for the definition of a PIE, that is capable of being applied on a consistent basis across different jurisdictions, will not be established within the IESBA Code. As a result of the IESBA view that the definition and concept of a PIE as set out in the IESBA Code is not required to be adopted and further refined at a jurisdictional level, as appropriate, we believe it is more likely that relevant local bodies may no longer fulfil their intended critical role in determining both the size and nature of entities that would be within scope of the baseline definition. As a result, this definition/concept, if adopted into the IAASB standards, may be applied to an unnecessarily broad population of entities where there is not significant interest in their financial condition and for which it would therefore be overly burdensome from a cost-benefit perspective to apply the differential requirements set out in the IAASB standards for PIEs, in particular, in respect of requirements related to engagement quality reviews and also communication of KAMs.

Instead, we suggest that, notwithstanding our recommendations set out in our response to Question 5, the IAASB maintain alignment of the proposed requirements in ED-240 with those of ISA 701, and liaise closely with IESBA regarding any proposed definitions of a broader set of entities, in particular PIEs, and considerations regarding extension of differential requirements to such entities.

We also note that, in our response to the above ED, we express support for the adoption of the definition and concept of a “publicly traded entity” into IAASB standards (subject to the inclusion of relevant material to address the role of jurisdictional bodies in more explicitly defining “publicly traded entity” as appropriate to the circumstances of their jurisdiction). Accordingly, if this proposed term is adopted for use in place of “listed entity” throughout the IAASB standards, including in ISA 701, the changes proposed in ED-240, including in respect of KAMs, would need to be aligned.

MNP

Disagree, with comments below

We do not believe this suggested revision regarding key audit matters relating to fraud should be expanded to non-listed entities or public interest entities. Refer to our response in #5.

PriceWaterhouseCoopers

Disagree, with comments below

We refer to our recent response on the IAASB's exposure draft of proposed narrow scope amendments to the ISQMs, ISAs and ISRE 2400 (Revised) on extending the extant differential requirements for listed entities, including communicating Key Audit Matters (KAMs), to apply to audits of all PIEs.

Until there is clarity on the intended scope and application of the intended common IESBA and IAASB definition of a PIE, we do not support extending the mandatory scope of ISA 701 beyond its application to audits of complete sets of general purpose financial statements of listed entities, or when the auditor is required by law or regulation to communicate KAMs in the auditor's report. ISA 701 already allows for the auditor to otherwise decide to communicate KAMs in the auditor's report for audits of other entities.

Therefore, the auditor is not precluded from choosing to include KAMs in the auditor's report on the audit of a (jurisdictionally determined) PIE, including (as described in our response to question 5) significant matters related to fraud. As such, ISA 240 should remain aligned with ISA 701 at this time.

Additionally, when the IAASB reconsiders this question in due course, we note that certain jurisdictions, following their local due process, have already determined that certain entities falling within the scope of the PIE definition (e.g., investment funds) should not be subject to KAM reporting requirements. This decision arises from valid reasons, indicating a need for careful consideration before extending transparency requirements to all PIEs.

Furthermore, there is a potential risk of less meaningful KAMs becoming prevalent if the differential requirements are extended to all PIEs, rather than solely to publicly traded entities. Certain classes of entity that may fall within the broad categories set out in the PIE definition may share common risks, leading to standardized or boilerplate KAMs, which could undermine their purpose and further increase the stakeholders' expectation gap.

Given these complexities, in addition to the necessary resolution of the scope and application of the proposed PIE definition, we encourage the IAASB to conduct further outreach activities to evaluate the merits of extending KAM reporting beyond listed (publicly traded) entities, including obtaining the perspectives of national standard setters regarding the needs of users of the auditor's report in their respective jurisdictions.

RSM International

Disagree, with comments below

We note that the public interest factors that drive this requirement include enhancing the communicative value of the auditor's report by providing greater transparency about the audit that was performed and to increase intended user confidence in the audit and the audited financial statements.

However, as noted in our recent response to the exposure draft of proposed narrow scope amendments to ISQMs, ISAs and ISRE 2400 (Revised), we have reservations about the need to extend the extant differential requirements for communicating KAMs, including those related to fraud, that currently only apply

to listed entities, to also be applicable to audits of financial statements of entities other than listed entities, such as public interest entities (PIEs), in particular with respect to entities where the financial statements may not be publicly available (e.g., owner-managed entities).

We appreciate that communicating KAMs, including those related to fraud, in the auditor's report may be requested or required by certain users of the financial statements for entities other than listed entities, such as their respective regulators, their banks under certain financing arrangements or potential investors. In these cases, paragraph 31 of extant ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, and paragraph 5 of extant ISA 701 already indicate that the auditor may communicate KAMs in the auditor's report when required by law or regulation or when the auditor otherwise decides to (i.e., at the option of the auditor).

We consider that in instances where KAMs, including those related to fraud, may not be necessary, such as where the financial statements may not be publicly available (e.g., owner-managed entities) and the financial statements are not required to be provided to other stakeholders or those stakeholders do not require KAMs, including those related to fraud, to be reported in the auditor's report, the IAASB should continue to allow KAMs, including those related to fraud, to be optional.

For the reasons stated above, we believe that the existing scope requirements for KAMs, including those related to fraud, in ISA 700 (Revised) and ISA 701 are appropriate and recommend the IAASB not to modify them.

6. Public Sector Organizations

Office of the Auditor General of Canada

Disagree, with comments below

In our view, transparency in the auditor's report about matters related to fraud introduced in ED-240 should be applicable to the same type of entities as those in the foundational standard for communicating key audit matters in the auditor's report (ISA 701). Having KAMs not related to fraud apply to audits of PIE (assuming approval IAASB's Listed Entity and PIE – Track 2 Project) and then KAMs related to fraud apply only to listed entities (or publicly traded entities) increases complexities and creates a disconnect with the foundational standard. We believe the ISAs should achieve the greatest consistency possible to maintain their interoperability/linkages.

Office of the Auditor General of Ontario

No. See our response to Question 5.

7. Member Bodies and Other Professional Organizations

Accountancy Europe

Disagree, with comments below

As mentioned in our response to Question 5, there is a risk that the auditor will become through certain KAMs a provider of information not disclosed by the entity if the transparency requirement is expanded to PIEs. Non-listed PIEs are not ordinarily subject to the same reporting requirements with listed entities and do not have to publicly disclose for instance, any information that may have an impact on their share price.

Therefore, ISAs as global auditing standards should require consideration of KAMs only for listed entities (or publicly traded entities as per the IESBA's new PIE definition). Standard-setters and regulators can expand the scope of this mechanism for their jurisdictions, depending on their respective needs and reporting

requirements for different types of companies. In the European Union, for example, KAMs are communicated as appropriate by auditors of PIEs since 2017.

California Society of Certified Public Accountants

Disagree, with comments below

We do not agree that ED 240 should be applicable to entities other than listed entities, such as Public Interest Entities.

Center for Audit Quality

Disagree, with comments below

While the CAQ appreciates the IAASB's endeavors to improve transparency, we question whether the requirement to communicate KAMs, including those related to fraud, would uniformly benefit all entities categorized as PIEs (particularly non-listed entities considered to be PIEs). The value derived from KAMs may differ significantly based on an entity's specific circumstances of it being treated as a PIE. For example, KAM reporting may not be particularly useful for owner-managed businesses, where stakeholders already have regular interactions with auditors. The potential benefits of KAMs for not-for-profit entities may not justify the associated costs, in particular taking into account the significant investment to methodologies and tools that firms that do not communicate KAMs today would be required to make.

Chamber of Auditors of the Czech Republic

Disagree, with comments below

In our view, the transparency in the auditor's report on fraud-related matters introduced in ED-240 should be applied only to audits of financial statements of listed entities. Local regulation may extend the requirement (e.g. to PIE's as defined by local jurisdiction).

Chartered Accountants Ireland

Disagree, with comments below

Given our disagreement with the IAASB's proposal to include in ED-240 Key Audit Matters Including Matters Related to Fraud for listed entities, as further detailed within the 'Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report' section above, we do not agree that any such requirements and guidance should be applicable to entities other than listed entities, such as PIEs.

CPA Australia

Disagree, with comments below

We disagree with expanding the transparency requirements about fraud-related matters in the auditor's report, as proposed in ED-240, to entities beyond listed entities.

The proposed transparency requirements in the auditor's report are mainly based on the responses of the targeted outreach of users of the financial statements that had responsibilities that more broadly impacted the global capital market as detailed in paragraph 16 of the IAASB Agenda Item 6, Fraud Issues Paper Final. Currently, the communication of Key Audit Matters (KAMs) applies only to listed entities. Extending this requirement beyond listed entities based on targeted feedback may not be appropriate.

In our joint submission to the Australian Auditing and Assurance Standard Board (AUASB), we concluded that currently there is no compelling reason, nor any pressing need, to extend the reporting of KAMs beyond listed entities in Australia. Given the additional effort and time involved in reporting KAMs, it is important that

there be careful consideration of costs versus benefits for any given group of users. Research should be undertaken to identify the existence of user needs for KAMs to be reported by other entities, along with a cost/benefit analysis, before moving to the mandatory application of KAMs to audits of a broader group of entities.

CPA Ontario Small and Medium Practices Advisory Committee

Disagree, with comments below

The question of whether the enhanced transparency requirements about matters related to fraud introduced in ED-240 should be extended to audits of financial statements of entities other than listed entities, such as Public Interest Entities (PIEs), presents a nuanced debate, especially from the perspective of smaller accounting firms.

The EM discusses the potential implications of extending these transparency requirements to non-listed entities, including PIEs. The consideration here revolves around the balance between the benefits of increased transparency and the burden it may place on smaller entities and their auditors. There is an acknowledgment that while increased transparency can enhance trust and accountability, it may also result in additional compliance costs and complexity.

ED paragraphs 61–64 outline the specific requirements for the auditor to discuss matters related to fraud in the auditor's report. While the focus is on ensuring that all significant fraud risks and findings are communicated clearly, the application to non-listed entities, including PIEs, raises concerns about proportionality and the practical burden on smaller audit firms.

Smaller firms often operate with more limited resources than larger firms. Extending detailed reporting requirements to all entities, including non-listed PIEs, could strain these resources, impacting the firm's ability to service smaller clients efficiently.

For non-listed entities, which may include privately held companies or smaller public organizations, the need for detailed public disclosure about fraud matters could be seen as overly intrusive and potentially damaging to their reputation.

There is a need to weigh the actual benefits of such disclosures against the potential risks or disadvantages. For non-listed entities, the risk profile is often different, and the stakeholder requirements for information may not justify the same level of transparency required for listed entities.

While transparency undoubtedly enhances stakeholder trust, the expectations of users of the financial statements of non-listed entities might differ from those of listed companies.

In summary, while the principle of transparency is universally beneficial, its application should be tailored to the nature and needs of the entity under audit. It might be more appropriate for standards like those proposed in ED-240 to include flexibility or thresholds that differentiate between listed and non-listed entities, especially considering the operational realities of smaller audit practices. This approach would support the dual goals of maintaining high standards of audit quality and transparency, while also recognizing the diverse contexts in which different firms operate.

Federation of Accounting Professions of Thailand

Disagree, with comments below

As discussed in response no. 5 above.

Institute of Chartered Accountants in England and Wales

Disagree, with comments below

We do not agree with IAASB's proposals relating to transparency in the auditor's report about matters related to fraud, nor do we believe they should be extended to audits of non-listed entities.

There is little appetite to expand existing KAM to non-listed entities and it makes no sense for fraud alone to be the exception. This would give fraud an even greater, inappropriate pre-eminence.

The FRC extended the existing requirement for the auditor to explain to what extent the audit was capable of detecting irregularities, including fraud, from PIE audits only, to non-PIE audits (ISA (UK) 700 (Revised)) in 2019. Despite urging auditors to tailor such disclosure to each audited entity's individual circumstances, we believe that the value that the FRC's revision has provided to financial statement users has not been commensurate with the length that it has added to the auditor's report.

Institute of Chartered Accountants of Jamaica

Disagree, with comments below

Firstly, the IESBA definition, effective 2024, will focus on publicly traded entities. We think that the definition of public interest in the exposure draft should be updated to reflect the new definition in the IESBA Code. Having regard to the cost/benefit impact of the standard (refer to question 4 above), it is unlikely that the added cost and effort would be appropriate for non-public interest entities.

Institute of Chartered Accountants of Scotland

Disagree, with comments below

We believe that the reporting of KAMs should be limited to listed entities.

Institute of Chartered Accountants of Sri Lanka

Disagree, with comments below

This may lead to a situation where the only key audit matter included to be on matters relating to fraud on the auditor's reports of PIEs. This will confuse the users who could assume that these entities are prone to heightened fraud risk, as there are no other KAMs.

Korean Institute of Certified Public Accountants

Disagree, with comments below

The KICPA has already expressed objection to the proposed extension of the requirement for KAM communication to PIEs in our comments provided in response to the previous ED (Proposed Narrow Scope Amendments to ISQMs, ISAs, and International Standard On Review Engagements 2400 (Revised)). The KICPA doesn't agree with the proposed extension of the requirement to report KAMs related to fraud to PIEs for the same reason. Followings are the reasons why the KICPA is opposed to extending the requirement for KAM communication to PIEs, as outlined in our previous comments.

ISA 701 A34-A36 state that it is appropriate for the auditor to seek to avoid inappropriately disclosing the original information about the entity, i.e. the information not disclosed by the entity, when describing KAM. For the listed entity, the auditor can describe KAM without disclosing the original information, only by making reasonable efforts, because the listed entity discloses a wide range of information. However, as for the public interest entity which is an unlisted entity, it may be challenging for the auditor to describe KAM without disclosing the original information, only by making reasonable efforts, due to a very limited disclosed

information. In addition, there is a high likelihood that the auditor may disclose the original information inadvertently.

Different countries use different approaches to respond to the public interest in the financial condition of a public interest entity which is not a listed entity. These approaches can be more effective than communication of KAM (e.g.: submission, disclosure and supervision of solvency and financial condition reports. If more effective approaches are available to use, the information user may not have a strong demand for the transparency of the auditor's report. Requiring the communication of KAM in all circumstances including the above situation is not likely to produce benefits which significantly outweigh the costs.

The public interest entity which is not a listed entity may have varying governance structures by country. In some countries, some PIEs may not have TCWG which is available for the auditor to fully communicate with when selecting KAM. Disclosing the information that has not been fully communicated with TCWG as KAM is likely to have more negative impacts (i.e., disclosing inappropriate information) than benefits (i.e., enhancing the transparency of auditor's report).

As for the PIE like a financial institution, the areas involving a high audit risk or the auditor's main focus areas are largely similar and easily predictable. Therefore, the information value of KAM is not likely to be high, as KAM only includes highly predictable boiler plate information.

Malta Institute of Accountants

Disagree, with comments below

We disagree that the transparency in the auditor's report about matters related to fraud introduced in ED 240 to be made applicable to entities other than PIEs.

Pennsylvania Institute of Certified Public Accountants

Disagree, with comments below

The committee does not support the proposed communication requirements in the auditor's report for other entities unless management or those charged with governance specifically engages the auditor to provide any additional KAMs related to fraud.

8. Academics

University of KwaZulu-Natal

Disagree, with comments below

I disagree with this view and transparency is an important element of reporting. While we could delay applicability on non-listed entities, this requirement cannot be removed entirely. Scalability should have been considered

Q06 No response

1. Monitoring Group

International Forum of Independent Audit Regulators

3. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

European Securities and Markets Authority

7. Member Bodies and Other Professional Organizations

Fraud Advisory Panel

No response

8. Academics

Accounting and Finance Association of Australia and New Zealand

No response