



**RESPONSE TO IAASB’S PROPOSED ISA 240 (REVISED)**  
**COMMENT LETTER (DUE AND SUBMITTED JUNE 5, 2024)**

**PART A: Respondent Details and Demographic information**

Your organization’s name (or your name if you are making a submission in your personal capacity)	CohnReznick LLP
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Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">North America</a>
	If “Other,” please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">Accounting Firm</a>
	If “Other,” please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	CohnReznick is the 16th largest accounting firm in the United States, with origins dating back to 1919. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market.

**Information, if any, not already included in responding to the questions in Part B:**

CohnReznick LLP appreciates the opportunity to comment on the IAASB's *Proposed International Standard on Auditing 240 (Revised) The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs* (the "Proposed Standard" or "ED-240.")

CohnReznick is supportive of the IAASB's efforts to clarify and enhance the auditor's responsibilities relating to fraud in an audit of financial statements, including emphasizing the value of exercising professional skepticism to high quality audits. We congratulate the IAASB for its progress to-date, including its efforts to incorporate stakeholder feedback on their previously issued discussion paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit* (September 2020) into the Proposed Standard.

Although, we are generally supportive of the Proposed Standard, especially the proposed changes that highlight the importance of the auditor's professional skepticism, we are concerned that the new fraud reporting requirements may have the unintended consequence of broadening the expectations gap.<sup>1</sup>

It is well understood, including under extant ISA 240, that fraud detection and deterrence is a shared responsibility. That responsibility includes management, those charged with governance, and internal and external auditors.<sup>2</sup> The IAASB's proposal expands on the description of the auditor's responsibility in ED-240 without a consideration of changes that may be needed to explain and expand on the description of the responsibilities of management, those charged with governance and others for fraud detection and deterrence. This is especially relevant considering increased fraud risks that may arise due to the transformative effects of technology. Therefore, we encourage the IAASB to collaborate with the International Accounting Standards Board (IASB), the International Ethics Standards Board for Accountants (IESBA) and others in the financial reporting ecosystem before finalizing any revisions to the description of responsibilities for the consideration of fraud in the auditor's report.

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.



June 5, 2024

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<sup>1</sup> In general terms, the expectation gap is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. See [IAASB-Discussion-Paper-Fraud-Going-Concern.pdf](#).

<sup>2</sup> For example, in the US, the shared responsibility for fraud detection and deterrence is acknowledged in the Sarbanes-Oxley Act (SOX) of 2002 and the Securities and Exchange Commission's (SEC) guidance for management related to management's report on internal controls together with the [2013 Committee of Sponsoring Organizations of the Treadway Commission \(COSO\) Internal Control - Integrated Framework](#). See section 10 of SEC Adopting Release 33-8183, *Strengthening the Commission's Requirements Regarding Auditor Independence* at <https://www.federalregister.gov/d/03-2364/p-224>

## PART B: Responses to Questions for Respondents in the EM for the ED

**For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.**

### *Responsibilities of the Auditor*

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?  
(See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)  
(See ED, paragraphs 1–11 and 14)

**Overall response:** Agree, with comments below

### **Detailed comments (if any):**

We agree that ED-240 clearly sets out the auditor's responsibilities related to fraud in an audit. We have two specific comments:

1. We note the examples for fraudulent financial reporting in ED-240.A3 appeared to be earnings focused. To avoid focusing auditors only on earnings, we recommend that the IAASB consider adding additional application guidance calling attention to non-earnings misstatements such as those underlined below.

*Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users. It can be caused by the efforts of management to:*

- *manage earnings to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability. Such earnings management may start out with small actions, or adjustment of assumptions, and changes in judgments by management or may be perpetuated partially or completely through large adjustments; or<sup>3</sup>*
- *misstate the financial statement other than through earnings, such as through (1) inappropriate classification on the balance sheet, income statement, and/or cash flow, and/or (2) inappropriate or omitted note disclosures.*

*Pressures and incentives may lead these actions to increase to the extent that they result in material fraudulent financial reporting.*

### **Examples:**

- *Management intentionally takes positions that lead to fraudulent financial reporting by materially misstating the financial statements due to pressures to meet market expectations or a desire to maximize compensation based on performance.*
- *Management reduces earnings by a material amount to minimize tax.*
- *Management defers recognition of revenue by a material amount to improve its chances for obtaining government grants or charitable contributions.*

<sup>3</sup> We acknowledge that under IAASB's drafting convention, the word "or" includes "and" as well. Our intent is to indicate these two bullets could both be present or just one individually; in other words, the "or" would be "and/or."

- *Management inflates earnings to secure bank financing.*
  - *Management reclassifies balance sheet amounts to maintain bank financing bound by restrictive balance sheet covenants.*
  - *Management omits disclosures related to a material uncertainty about an entity's ability to continue as a going concern to better attract investors.*
2. We are supportive of the additional application guidance in ED 240.A21 providing examples of what may be determined to be Third-Party Fraud. We believe this will help clarify matters for both preparers and auditors.

*Professional Skepticism*

2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?

*(See EM, Section 1-D, paragraphs 19–28)*

*(See ED, paragraphs 12–13 and 19–21)*

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

Overall, we are supportive of the expansion of the proposed application guidance to reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements, including the examples. We believe this will be useful and informative to auditors. We do have concerns with the removal of the explanatory language in the first line of extant ISA 240 paragraph 14 which reads “*An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication.*” We believe that this language, even though it is in extant ISA 200, provides important context for the auditor and we recommend the wording be reinstated.

We also note the wording in extant ISA 240.6 has been placed as application material in ED240.A12 but without the sentence below. We recommend this be reinstated as it proves important context, ED-240. *While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.*

*Risk Identification and Assessment*

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>4</sup> and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?

*(See EM, Section 1-F, paragraphs 36–46)*

*(See ED, paragraphs 26–42)*

**Overall response:** [Agree, with comments below](#)

<sup>4</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

**Detailed comments (if any):**

We recommend that the IAASB consider our suggested clarifications and refinements set out below:

- New language to prompt engagement teams' discussions and consideration as to how assets may be misappropriated, and how financial statements may be misstated as a result. For example, there is value in brainstorming about whether/how management may record a material related expense, including those relating to the misappropriation of assets as "general and administrative" with no appropriate disclosure, intentionally (fraud) or, out of lack of knowledge of the appropriate disclosure (error).

ED-240.29

(a) *An exchange of ideas about:*

...

ii. *Fraud risk factors, including: (Ref: Para. A51–A52)*

...

(c) *How (1) assets of the entity could be misappropriated by management, those charged with governance, employees or third parties, and (2) how such misappropriation may cause the financial statements to be misstated due to error or fraud.*

- Additional wording to proposed ED 240.29 to clarify that auditors should also consider fraud or suspected fraud that may occur after/subsequent to the period under audit in determining the overall audit strategy and audit plan.

(b) *A consideration of any fraud or suspected fraud, including allegations of fraud, that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current year, prior years, or subsequent periods.*

*Fraud or Suspected Fraud*

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)

(See ED, paragraphs 55–59 and 66–69)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

We believe ED-240 establishes robust work effort requirements and application material for the circumstances when instances of fraud or suspected fraud are identified in the audit. We believe the examples in the application material will be helpful in promoting a consistent understanding of the auditor's requirements with respect to fraud which may be referenced/cited to others, including audit clients, when describing the auditor's work effort. Often, there is a lot of sensitivity when a fraud has been identified or suspected, even for low-level third-party fraud. By having examples in the proposed standard, auditors will be able to point to the application material during their discussions with management and those charged with governance in explaining their professional obligations.

*Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report*

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

(See EM, Section 1-H, paragraphs 58–78)

(See ED, paragraphs 61–64)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

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.

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?

(See EM, Section 1-H, paragraphs 76–77)

(See ED, paragraphs 61–64)

**Overall response:** [Disagree, with comments below](#)

**Detailed comments (if any):**

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.

*Considering a Separate Stand-back Requirement in ED-240*

7. Do you agree with the IAASB's decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

*(See EM, Section 1-J, paragraphs 107–109)*

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

We agree with the IAASB's decision not to include a separate stand-back requirement in ED-240, given its existing stand-back requirements and guidance in other ISAs (i.e., ISA 220, ISA 315, ISA 330, and ISA 540) that already apply to fraud-related procedures. We believe adding an additional stand-back requirement potentially dilutes the effectiveness of the existing stand-back in requirements, which in our view already incorporates the need for a consideration of fraud.

*Scalability*

8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities, given that matters related to fraud in an audit of financial statements are relevant to audits of all entities, regardless of size or complexity)?

*(See EM, Section 1-J, paragraph 113)*

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

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.

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>5</sup> ISA 220 (Revised),<sup>6</sup> ISA 315 (Revised 2019), ISA 330,<sup>7</sup> ISA 500,<sup>8</sup> ISA 520,<sup>9</sup> ISA 540 (Revised)<sup>10</sup> and ISA 701<sup>11</sup>) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

Refer to our responses to Questions 4 to 7 above which includes a discussion of our concerns related to the linkages between ED-240 and other ISAs, including ISA 701.

*Other Matters*

10. Are there any other matters you would like to raise in relation to ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

**Overall response:** [Yes, with comments below](#)

**Detailed comments (if any):**

We believe it is important for the IAASB to bear in mind that what constitutes “fraud” may not necessarily be fully and/or consistently understood amongst, or even inside, different jurisdictions. We believe it is in the public interest that the auditor’s report continue to include brief descriptions for fraud detection and deterrence by management and those charged with governance, and that fraud-related key audit matters should be determined based on the criteria in extant ISA 701. We are concerned that some of the IAASB’s proposed changes to the auditor’s report may inadvertently exacerbate the expectations gap as some users may believe that there is assurance of a type other than what the auditor is required to provide under auditing standards.

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<sup>5</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>6</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>7</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>8</sup> ISA 500, *Audit Evidence*

<sup>9</sup> ISA 520, *Analytical Procedures*

<sup>10</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>11</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*



*Translations*

11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.

**Overall response:** [No response](#)

**Detailed comments (if any):**

*Effective Date*

12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the Going Concern project and the Listed Entity and PIE – Track 2 project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Would this provide a sufficient period to support effective implementation of the ISA?

*(See EM, Section 1-J, paragraphs 115–116)*

*(See ED, paragraph 16)*

**Overall response:** [See comments on effective date below](#)

**Detailed comments (if any):**

We support IAASB's planned effective date and believe that it would provide a reasonable timeframe for auditors to implement and adopt ED-240 itself. However, accounting firms may experience implementation and adoption challenges because of the need to update their methodologies and training programs to reflect any fraud-related changes from other standard setters (e.g., the US Public Company Accounting Oversight Board and its noncompliance with laws and regulations (NOCLAR) project).