

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

Guide for Respondents

Comments are requested by **June 5, 2024**.

This template is for providing comments on the Exposure Draft (ED) of *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 (ED-240)*, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the ED [web page](#) to upload the completed template.

PART A: Respondent Details and Demographic information

Your organization’s name (or your name if you are making a submission in your personal capacity)	Colin Semotiuk CPA, CA
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	csemotiuk@oag.ab.ca
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.	North America
	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.	Public sector organization
	If “Other,” please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	Senior Manager, Professional Practice

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB’s preference is that you incorporate all your views in your comments to the questions (also, question no. 10 in Part B allows for raising any other matters in relation to the ED).

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

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: [Disagree, with comments below](#)

Detailed comments (if any):

ED-240 incorrectly communicates the auditor's responsibilities relating to fraud in an audit of financial statements. This is clearly demonstrated by ED-240 describing the auditor's responsibilities relating to fraud before management and those charged with governance (TCWG). Financial statement auditor's have the least responsibility relating to fraud of the three (management, TCWG and financial statement auditor) and this should be clearly communicated through ED-240. The auditor's responsibility is to issue a financial statement audit opinion and ED-240 incorrectly moves the responsibility of a financial statement auditor from a financial statement audit to an audit to detect fraud.

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: [Disagree, with comments below](#)

Detailed comments (if any):

As noted to question 2, ED-240 moves a financial statement auditor's responsibilities from a financial statement audit opinion to detecting and preventing fraud. ED paragraphs 12, 19, A25, A27 and A31 are in relation to other ISAs and such guidance should be included in the original ISA versus moving the focus of the auditor from the financial statement audit to detecting and preventing fraud. If the originating standard for professional skepticism is insufficient, it should be analyzed and reviewed with an exposure draft to update the identified inadequacies.

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)¹ 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: [Disagree, with comments below](#)

Detailed comments (if any):

ED-240 inappropriately moves ISA 240 from an appropriate risk identification and assessment for a financial statement audit to a robust risk identification and assessment of a fraud or forensic audit, a separate engagement when management or users suspect fraud. This is clearly demonstrated by the risk assessment procedures and related activities of ED-240 taking 5 pages of the ED with over 7500 words, (17 pages), of application guidance and Appendix 1: Examples of Fraud Factors which includes almost 100, (6 pages), of factors. How will auditors efficiently document that they have considered all these requirements and guidance? What happens when a fraud occurs, and all 90-100 factors/considerations in Appendix 1 were not documented in the audit file? What response does an auditor provide a judge as to why they didn't consider "use of business intermediaries for which there appears to be no clear business justification" as one of the opportunities for management to commit fraud, the consideration is clearly stated in ISA 240 (Revised)? We highlight that this is only the risk assessment requirements.

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 audits 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.

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):

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Yes, ED-240 appropriately provides requirements and application material when fraud or suspected fraud is identified. This material is appropriately included in ED-240 as it is not overly cumbersome and does not logically fit into other ISAs.

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: [Click to select from dropdown menu](#)

Detailed comments (if any):

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.

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: [Click to select from dropdown menu](#)

Detailed comments (if any):

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.

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):

Yes, we agree with the IAASB's decision to not include a separate stand-back requirement in ED-240. To include this requirement would further demonstrate that ED-240 is a "stand alone" audit of fraud vs. requirements relating to fraud for a financial statement audit.

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: [Disagree, with comments below](#)

Detailed comments (if any):

No, ED-240 does not appropriately integrate scalability into a financial statement auditor's responsibilities relating to fraud. ED-240 removes scalability due to its high complexity and excessive breadth of requirements and guidance. This is demonstrated in the Appendices. One example is Appendix 1 which includes almost 100, (6 pages), of fraud risk factors for an auditor to "consider." It is not scalable to document and demonstrate that the auditor sufficiently considered and analyzed this breadth of factors. As noted to question 3, what happens when a fraud occurs, and all 90-100 factors/considerations in Appendix 1 were not documented in the audit file? What response does an auditor provide a judge as to why they didn't consider "use of business intermediaries for which there appears to be no clear business justification" as one of the opportunities for management to commit fraud, the consideration is clearly stated in ISA 240 (Revised)? Another example is Appendix 3 which has over 40 examples of circumstances that may be indicative of fraud. Including such a detailed and excessive listing of circumstances, can be interpreted as

being all inclusive and brings unnecessary litigation risk to the profession. What legal defense does an auditor have if one, two or three of the Appendix 3 examples, (i.e. undue time pressures imposed to resolve complex or contentious issues, delays by the entity in providing requested information, and unexplained fluctuations in account balances), were identified by the auditor, however the auditor's professional judgement did not conclude they were due to fraud when a fraud has occurred? These circumstances are not irregular and most often occur without fraud.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² ISA 220 (Revised),³ ISA 315 (Revised 2019), ISA 330,⁴ ISA 500,⁵ ISA 520,⁶ ISA 540 (Revised)⁷ and ISA 701⁸) to promote the application of the ISAs in an integrated manner?

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

Overall response: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

As noted above, ED-240 inappropriate transitions ISA 240 from a standard on an auditor's responsibilities relating to fraud for a financial statement audit to a financial statement auditor must also complete an individual audit of possible fraud. This is further supported by the number of paragraphs that link to other ISAs, including ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, ISA 540 (Revised), etc.

This is further demonstrated by the number of references to other ISAs in 240, not just the individual standards. Some examples include, Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control is seven paragraphs (33-39). All seven paragraphs reference to another ISA, specifically ISA 315 (Revised 2019). Risk Assessment Procedures and Related Activities is seven paragraphs, (26-32), and only two paragraphs do not reference another ISA. The fact that ED-240 so extensively prescribes requirements of the financial statement auditor, (note these are "shall" procedures), based on other ISAs, clearly demonstrates either the other ISAs have flaws and should have include specific sections of fraud, or that ED-240 is incorporating a separate fraud engagement into all financial statement audits.

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁵ ISA 500, *Audit Evidence*

⁶ ISA 520, *Analytical Procedures*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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):

ED-240 would be improved by adding examples/considerations for the public sector. Examples of where public sector examples/considerations would be beneficial include (see underlined wording):

.A6 [new example] “Misappropriation of assets for the public sector may include tax avoidance schemes or underreporting revenues by tax payers or public sector entities knowingly issuing grants to ineligible recipients.”

.A11 “. . . an otherwise insignificant fraud perpetrated by senior management or a public official is ordinarily considered . . .”

.A64 “. . . External performance measures may include expectations from shareholders, analysts, legislators, elected officials, or other users.”

.A66 bullet 2, “Short-selling reports, negative media attention, negative analyst reports or political criticisms from opposition parties or citizens.”

.A155 [new example for both qualitative and quantitative circumstance] “Impacts to surplus or deficit and whether or not the public sector entity meets or exceeds its approved budget.”

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):

Intentionally left blank.

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: No response

Detailed comments (if any):

Intentionally left blank.