

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)	CPA Australia
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Ram Subramanian Tiffany Tan
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Tiffany Tan
E-mail address(es) of contact(s)	Tiffany.tan@cpaaustralia.com.au
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.	Asia Pacific
	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.	Member body and other professional organization
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	<p>As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 170,000 members working in over 100 countries and regions around the world. We welcome the opportunity to provide a submission on the Exposure Draft (ED) of <i>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)</i></p> <p>We make this submission on behalf of our members and in the broader public interest.</p>

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:

Overall, we do not believe that the proposed ED-240 will change auditor behavior, except to the extent that it is significantly increasing the responsibilities of the auditor with respect to preventing and detecting fraud. We consider the extant standard on fraud to be largely fit for purpose, although it could benefit from some **minor targeted** enhancements, such as improving the clarity and expectations concerning the exercise of professional scepticism and explicitly requiring further audit procedures to be undertaken when fraud risk controls are considered ineffective.

Our members are concerned about the continued trend of increasing the length of standards, which is the case with the proposals in ED-240, including where certain sections are circular and repetitive. They are also concerned about aligning the proposed requirements in ED-240 with ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* (ISA 315 (Revised)). While aligning ED-240 with ISA 315 (Revised) is sensible in principle, practical challenges in implementing ISA 315 (Revised) suggest a post-implementation review (PIR) of ISA 315 (Revised) might be prudent before using it as a model for revising other ISAs.

We believe that certain types of targeted assurance engagements may be more effective in achieving the aim of prevention and detection of fraud. Assurance engagements (e.g., compliance engagements) on the effectiveness of the entity's internal controls over financial reporting may better help reduce fraud risks. Additionally, assurance engagements focused on management's assessment of fraud risks and their response would directly target both material and non-material fraud.

We understand the importance of regulatory input into international standard setting. However, we are growing concerned about the increasing influence of regulatory bodies in international standard-setting. Such regulatory pressure may arise from an expectation for the auditing profession to bear a disproportionately high responsibility for any corporate misconduct. This could result in undue pressure on international standard setters such as the IAASB.

We believe it is crucial to consider practical issues in a balanced and proportionate manner, including the roles and responsibilities of **all participants** in the reporting ecosystem, the implementation challenges of evolving requirements, and the widening expectations gap that may arise from regulatory demands. We encourage the IAASB to consider all feedback equitably and avoid giving disproportionate weight to any single stakeholder or group of stakeholders.

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

Detailed comments (if any):

Overall, we are of the view that the Explanatory Memorandum (EM) and ED-240 only partially clarify the auditor's responsibilities regarding non-material fraud and third-party fraud. The expectations for inquiries and work effort related to these areas remain unclear.

Responsibilities relating to fraud.

While we agree that the inherent limitations of an audit in detecting fraud can be misleading and should be 'decoupled' from the paragraph that describes the responsibilities of the auditor, we disagree with the proposed sequence change in ED-240. The primary responsibility for preventing and detecting fraud within an organisation lies with management and those charged with governance (TCWG). The auditor's role is subservient to that of management and TCWG and as such, the auditor's responsibilities should be described after their responsibilities. Changing this sequence **and** 'decoupled' inherent limitations may create the false perception that the auditor's responsibilities regarding fraud have been expanded, thus potentially exacerbating the expectation gap.

The EM repeatedly states that the proposed revisions for non-material fraud and third-party fraud are not intended to expand the roles and responsibilities of the auditor relating to fraud in an audit of the financial statements (see EM paragraphs 17 and 92.) However, this is not the case. The proposed ED-240 appears to have extended the audit procedures to address non-material fraud and third-party fraud that is not directly related to a risk of material misstatement.

Non-material fraud

We reiterate our stance in our [Submission](#) on the *IAASB Public Consultation on Fraud and Going Concern in an Audit of the Financial Statements Expectation Gap* that audit procedures should not be extended to detecting non-material fraud per se, as it likely fails a cost-benefit test. Moreover, the IAASB needs to be clear in its future intent and whether it now considers that an audit should address all conceivable, potential, suspected and expected risks relating to fraud, whether material or not. Non-material fraud is difficult to identify without significantly increasing work effort and lowering materiality thresholds. The very nature of fraud, which can include concealment, collusion, and deception, can mean it seeks to evade discovery. However, we acknowledge that when non-material fraud is identified, it is relevant to the auditor as it potentially may indicate broader risks, such as undetected future fraud or systematic control weaknesses. The same can be said about all risks.

While ED-240 paragraph A11 helps explain the qualitative impact of fraud, it lacks guidance on the auditor's response when qualitatively immaterial fraud is found. We acknowledge that auditors need to apply their professional judgment when determining the work effort required. Nonetheless, clear guidance on the extent of work required, linked back to fraud risk, would be helpful. This includes actions to take when dealing with qualitatively immaterial suspected fraud or allegations of fraud.

Third-party fraud

The auditor's responsibilities regarding third-party fraud are not clearly defined. The broad definition of third-party fraud in ED-240 paragraph A21 could include many types of fraud that auditors cannot reasonably be expected to detect. EM paragraph 92 states that the IAASB does not intend to expand the auditor's role to detect fraud that is not directly related to material misstatements. This is not the case; it does expand the auditor's role. The example of a cybersecurity breach that is indirectly related to the risk of material misstatements in ED-240 paragraph A16 contradicts this intent.

To provide clarity, the IAASB should offer examples of third-party fraud directly and indirectly related to material misstatements. It is also unclear if additional work is required when fraud perpetrated by a third party is identified, apart from considerations under law, regulation, or ethical requirements. Additionally, it is unclear if the work effort for fraud or suspected fraud perpetrated by a third party would differ from that which is required for fraud or suspected fraud perpetrated within the organisation.

Whilst broad third-party fraud risks can reasonably be expected to be considered by the auditor at a high level, we do not consider that the auditor can conduct an in-depth assessment of third-party fraud risk. A more specific targeted engagement is required to address those risks.

Definitions

The definitions of fraud and fraud risk factors remain largely unchanged, with additional application paragraphs included for clarity. These paragraphs are helpful, except for paragraph A21, which includes a broad definition of third-party fraud. The broad scope of the definition that captures many third parties can be problematic without a clear scope of the role of auditors in relation to third-party 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: [Agree, with comments below](#)

Detailed comments (if any):

Overall, we agree that ED-240 reinforces the exercise of professional skepticism.

However, we suggest that the IAASB consider moving the examples in paragraph A26 to the appendix of the standard or clarifying that these are examples and not requirements. This is to prevent hindsight bias, which could lead to challenges suggesting auditors should have been alert to documentation issues.

Additionally, it is important to note that "authenticity" in the fraud standard differs from its meaning in ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* (ISA 200) or ISA 500 *Audit Evidence* (ISA 500), which could lead to unintended interpretation differences that compound the problems where this list of conditions in A26 is not considered for documents in other engagements.

We also find that the examples in paragraph A29 mainly apply to larger, more complex entities (such as references to audit committee, internal audit function and whistleblower program), lacking scalability for smaller entities. We recommend including examples relevant to smaller entities to better address scalability.

The explanatory lead-in sentence from the extant ISA 240, "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine," has been removed from ED-240 paragraph 20 but retained in paragraph A24 of ISA 200. We suggest revising paragraph A24 of ISA 200 to align with the intent of removing this lead-in sentence.

Finally, ED-240 retains the term "authentic" from the extant ISA 240. We recommend replacing "authentic" with "reliable" to better align with ISA 500.

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):

We have received feedback from our members and others that there are practical challenges in applying ISA 315 (Revised). Consequently, we are unsure if it is appropriate to base the requirements in ED-240 on ISA 315 (Revised) at this stage. Perhaps, a PIR should first be done on ISA 315 (Revised) prior to revising all the other standards and using ISA-315 as the main point of reference, including ISA 240.

We are also concerned that ED-240 over-emphasises the importance of fraud risk, treating it as fundamentally different from other audit risks. Fraud is not inherently exceptional compared to other risks, and there may be other more significant existential risks to entities. Therefore, fraud risk may be of lesser concern to managers or TCWG than other risks. While fraud risk is important for auditors, it should not overshadow other critical risks identified in a financial statement audit.

Similarly, revenue is singled out for fraud risk presumption, which we question. The risk of revenue overstatement may be significant for listed and larger entities where there are pressures or incentives on management to commit fraudulent financial reporting and to manipulate the revenue growth or profit.

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

However, this risk is often insignificant for smaller entities, where owners are also managers. In SMEs, risks may lie more in the presentation of liabilities, affecting banking facilities and covenants.

Over-emphasising fraud risk could reduce audit quality and detract from addressing other important risks. We encourage the IAASB to adopt a more principle-based approach, allowing auditors to use professional judgment in risk identification and assessment. For example, the presumption of fraud risk in revenue recognition could be re-purposed as one of the many examples of risky areas depending on the circumstances of the audited entities.

The risk identification and assessment section lacks scalability and practical guidance for smaller entities. Although ED-240 paragraph A88 states that “When there are no formalized processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance identify fraud risks related to the misappropriation of assets and fraudulent financial reporting and assesses the significance of the identified fraud risks.”, ED-240 is unclear on what constitutes appropriate and sufficient audit evidence that is required to conclude on the entity’s control environment. As such, additional guidance on scalability in practice would be beneficial.

We also disagree with involving forensic and other experts in team discussions for every audit engagement, as stated in paragraph A49. Forensic insights could be shared more effectively through firm-wide training on fraudsters' modus operandi. Additionally, when scalability is mentioned, it is unclear to which requirements it refers. For instance, paragraph A58's reference to scalability is ambiguous relative to the preceding paragraph A57. We also suggest moving the detailed content of paragraphs A51 to A53 to the appendix of the standard for clarity.

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: [Disagree, with comments below](#)

Detailed comments (if any):

We do not believe ED-240 clearly delineates the varying work efforts required for fraud, suspected fraud, and allegations of fraud. While the basic procedure for all types of fraud involves gaining an understanding, the approach can vary significantly based on the credibility of the initial information. For example, dealing with baseless allegations from disgruntled employees requires a different work effort to establish that the allegation has foundation.

Given the potential progression from alleged or suspected fraud to identified fraud and the iterative nature of fraud risk assessment, we urge the IAASB to develop a decision tree or flowchart. Similar to the [ISA 315 First-time implementation guide](#), this tool would map out the execution of requirements and their dependencies based on the outcomes of the preceding steps.

Additionally, the examples in paragraph A29, which indicate fraud or suspected fraud, mostly apply to larger entities. We recommend including examples relevant to smaller entities to improve scalability and practical application as noted in our response to Question 2 above.

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: [Disagree, with comments below](#)

Detailed comments (if any):

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

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

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

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

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 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.

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 \(with no further comments\)](#)

Detailed comments (if any):

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):

Please refer to the above responses to Question 2 and Question 3 for scalability issues.

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: [Agree, with comments below](#)

Detailed comments (if any):

We note that the question above does not include reference to the linkages between ISA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* (ISA 250 Revised) and ISA 240. This could be a minor drafting issue as paragraph 82 of the EM specifically addresses clarifying the relationship between ED-240 and ISA 250 (Revised).

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):

Clarity on procedures expected to be directly fulfilled by the engagement partner.

We note that paragraph 52 of the EM expects the engagement partner, based on the understanding obtained as per paragraph 55, to make determinations about the effect of the fraud or suspected fraud on the audit according to paragraph 56.

However, it was unclear if paragraph 22 of ED-240 also intends for the engagement partner to “identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained.” We suspect this is a minor drafting issue and recommend that the IAASB clarify the level of involvement required from engagement partners and revise the wording of paragraph 22 accordingly. We believe that expecting engagement partners to perform detailed procedures, such as identifying and assessing risks of material misstatement due to

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*

fraud, would be impractical. The role should focus on making determinations rather than performing these detailed tasks.

Potential gaps in documentation requirements

We have identified some potential gaps in the documentation requirements of ED-240. Firstly, paragraph 70 does not mandate the documentation of ongoing fraud discussions with TCWG as required by paragraph 25. This omission could lead to a lack of accountability and oversight in monitoring and addressing fraud risks. Secondly, Paragraph 70(a) lacks a requirement to document the conclusions reached during discussions amongst the engagement team, focusing solely on the matters discussed. This gap may result in incomplete records, making it difficult to trace the decision-making process and rationale behind key judgments. Addressing these gaps would enhance the thoroughness and transparency of the documentation process.

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: [No response](#)

Detailed comments (if any):