

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)	KICPA (The Korean Institute of Certified Public Accountants)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Hong Jong-Hyeok
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	hyeok07@kicpa.kr
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).	

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: [Agree, with comments below](#)

Detailed comments (if any):

The KICPA is of view that ED-240 clearly defines the auditor's responsibilities relating to fraud. The KICPA strongly supports the proposed revision to enhance the clarity while maintaining the existing requirements regarding the auditor's responsibilities relating to fraud. However, the KICPA hopes that improvements are made in following areas to further enhance the clarity of the standards.

(1) Need to clearly state that the detection of fraud is not the auditor's responsibility.

There is a need to clearly state that 'the auditor is not responsible for detecting fraud' and to provide relevant guidelines, in order to address the expectation gap regarding the auditor's responsibility relating to fraud and enhance the clarity about the auditor's responsibility.

Many users of the auditor's report believe that the auditor is responsible for detecting fraud and expect the audit of financial statements to provide assurance that no fraud has been detected. Although the proposed revision clarifies that the auditor's responsibility is 'to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud', it is still difficult for the user of the auditor's report to distinguish 'no material misstatement due to fraud' from 'no detected fraud'.

Paragraphs 6 and 7 of ED-240 indirectly indicate that the detection of fraud is not the auditor's responsibility. However, inexplicit explanation alone doesn't appear to be sufficient to resolve the expectation gap described above. There is a need to explicitly state that 'the detection of fraud is not the auditor's responsibility' in the standards.

Specifically, following enhancements are considered to be required.

- ISA 240 should include an explicit statement under Introduction Section that 'the auditor is not responsible for detecting fraud or obtaining assurance that no fraud has occurred'. (Add an introductory paragraph in paragraph 6 or 7 of ED-240)

- ISA 240 should describe in a great detail under Application Material or elsewhere, what are the differences in terms of objective, outcome and procedure between 'obtaining assurance about whether the financial statements as a whole are free from material misstatement due to fraud' and 'detecting fraud or obtaining assurance that no fraud has occurred'.
- ISA 240 should explain that there may be a need to perform 'a procedure to directly detect fraud' in the course of audit engagement and provide guidance on situations when such a procedure is required. For example, paragraph A35 can provide specific and diverse examples of situations when experts specialized in fraud detection including forensic skills should be relied on, along with description of forensic skills.

(2) Need to revise the paragraph on the auditor's responsibility relating to inherent limitations.

Paragraph A57 of ISA 200 clearly states that the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. Therefore, there is no need to include a duplicate statement in paragraph 10 of the ED that 'the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence'. In addition, the paragraph 9 of the ED states that 'that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud'. Considering that the auditor should obtain persuasive audit evidence to obtain reasonable assurance about whether the financial statements as a whole are free from material statement due to fraud, the statement that 'not a justification for the auditor to be satisfied with less than persuasive audit evidence' also means 'that doesn't diminish the auditor's responsibility'. This also indicates that there is no need to repeat duplicate statements. Therefore, we propose removing the added statement in paragraph 9 of the ED that 'that does not diminish the auditor's responsibility' and the statement in paragraph 10 of the ED that 'not a justification for the auditor to be satisfied with less than persuasive audit evidence'.

(3) Need to revise the requirements relating to forensic skills.

In addition to providing examples of situations when forensic skills are required as described in the above, part of the application material relating to forensic skills need to be revised.

Paragraph A35 of the ED outlines the examples of specialized skills or knowledge included in forensic skills. They include identifying and evaluating fraud risk factors, identifying and assessing the risks of material misstatement due to fraud, and evaluating the effectiveness of controls implemented to prevent or detect fraud, among others. They are described as the examples of the specialized areas of forensic skills, although these procedures are in fact general assurance skills and techniques used by the auditor of financial statements. This may create misunderstanding that some of the

auditor's general assurance skills and techniques are forensic skills. It is desirable to add explanation to prevent such misunderstanding or remove the relevant items.

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):

The KICPA is of view that the ED generally strengthens the exercise of professional skepticism regarding the matters relating to fraud in an audit of financial statements.

However, the IAASB believed that 'referring to the auditor's preconceptions, based on past experience' in Paragraph 13 of the extant ISA 240 may undermine maintaining professional skepticism about the honesty and integrity of management and TCWG, resulting in removing the relevant part from the ED. On the contrary, it would be reasonable to clearly state that the auditor should maintain professional skepticism in the course of an audit engagement 'regardless of the auditor's past experience about the honesty and integrity of management and TCWG', in order to strengthen the professional skepticism. Therefore, we propose that the relevant part should be included back in the ED.

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: [Agree, with comments below](#)

Detailed comments (if any):

The KICPA agrees that the ED-240 appropriately builds on the foundational requirements in ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements.

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

However, the presumption that fraud risk factors related to revenue recognition are present may not apply in some cases. Therefore, we propose revising the part of Paragraph A110 of the ED that ‘the significance of fraud risk factors related to revenue recognition ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition’ to ‘the significance of fraud risk factors related to revenue recognition makes it uncommon for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition’.

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):

The KICPA agrees that the ED establishes robust work effort requirements and application material to address circumstances when instances of ‘fraud or suspected fraud’ are identified in the audit.

Paragraph 57 of the ED describes the actions the auditor shall take when the auditor identifies a material misstatement due to fraud. However, the procedures outlined under (b)/(c) of the same paragraph are considered to be necessary when ‘fraud or suspected fraud’ is identified, even if the auditor doesn’t identify a misstatement due to fraud.

- (b) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management is involved; and
- (c) Reconsider the reliability of management’s representations and audit evidence previously obtained when the circumstances or conditions giving rise to the misstatement indicate possible collusion involving employees, management or third parties

The KICPA hopes that clearer explanation is provided with regard to the 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: [Agree, with comments below](#)

Detailed comments (if any):

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

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

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

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

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

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

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):

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.

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: [Agree \(with no further comments\)](#)

Detailed comments (if any):

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

Detailed comments (if any):

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: No response

Detailed comments (if any):

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):