

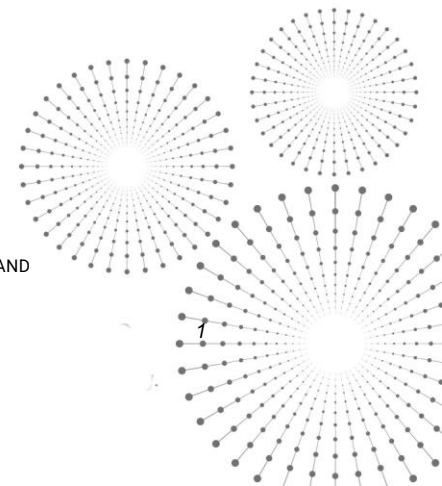
**Responses to IAASB’s Request for Comments in the EM for the ED, Proposed ISA 240 (Revised)**

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

Your organization’s name (or your name if you are making a submission in your personal capacity)	External Reporting Board
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Misha Pieters
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	misha.pieters@xrb.govt.nz
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="#">Asia Pacific</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="#">Jurisdictional/ National standard setter</a>
	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, the last question 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):**

*Generally the NZAuASB agrees that ED-240 clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements. We agree with decoupling the descriptions of inherent limitations of the audit and the auditor's responsibilities because the inherent limitations do 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. We are however concerned that there may be some "scope creep" with regard to third-party fraud.*

#### *Third-party fraud*

*The auditor's responsibilities regarding third-party fraud are not clearly defined. While the definition of fraud in ED-240 includes reference to third-party fraud, the ED, as currently drafted, does not adequately convey that it is not the responsibility of the auditor to detect third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements.*

#### *Non-compliance with laws and regulations*

*We understand that fraud constitutes an instance of non-compliance with laws and regulations and that the auditor may have additional responsibilities as described in ISA 250. However, we find the example of a cybersecurity breach in paragraph A16 confusing and provides little value as currently drafted. Paragraph A16 already states that identification of fraud or suspected fraud perpetrated by a third party may also give rise to additional responsibilities for the auditor under law, regulation or relevant ethical requirements. We believe the example could benefit from addressing what action the auditor might need to take to address the risk of material misstatement of the financial statements due to 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):**

*We agree that ED-240 reinforces the exercise of professional scepticism about fraud-related matters in an audit of financial statements. We found the addition of examples in the application material helpful to apply professional scepticism.*

*In paragraph 19 we are concerned with use of the words “possibility that a material misstatement due to fraud could exist.” Based on the common meaning of “possibility,” it could be misinterpreted to broaden the role and responsibilities of the auditor. Paragraph 19 starts, in applying ISA 200... We therefore encourage the IAASB to more closely align the wording of paragraph 19 with ISA 200, which states, “The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.” We also consider that the requirements in paragraphs 19 and 21 are related and therefore recommend combining these paragraphs.*

*In paragraph A26, we recommend adding the wording “**Examples of conditions...**”. We acknowledge the heading “examples”, however our concern is that without the reference to examples in the lead-in sentence to the bullet points, the examples risk becoming a checklist.*

### **Risk Identification and Assessment**

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>1</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](#)

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

*We agree that ED-240 appropriately builds on the foundational requirements in ISA 315, supporting a more robust risk assessment process related to fraud in the audit of financial statements. The requirements and application material in ED-240 require the auditor to think more critically about fraud.*

*Some of our stakeholders have questioned whether mitigating controls can be taken into account in assessing fraud risks. Our understanding is that, consistent with ISA 315 (Revised 2019), the auditor*

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

considers inherent risk and control risk separately, however we recommend that the IAASB clarify this further in the final standard.

*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):**

*While we agree that the auditor needs to obtain an understanding of the identified or suspected fraud in order to determine the impact on the audit we are concerned with the practicality and scalability of the requirement in paragraph 55 as drafted.*

*As defined, suspected fraud includes allegations of fraud that have come to the auditor’s attention. If an entity that has a whistleblower program, and receives hundreds of allegations of fraud, is the auditor expected to obtain an understanding of every incidence reported?*

*The role of the auditor is to obtain reasonable assurance that the financial statements are free from material misstatement whether due to fraud or error. Lack of any reference to materiality considerations in applying paragraph 55 may lead the auditor to spend significant time investigating matters that are clearly inconsequential to the audit.*

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

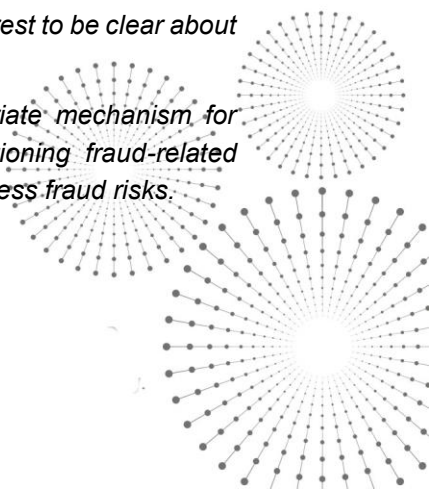
5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor’s report?  
(See EM, Section 1-H, paragraphs 58–78)  
(See ED, paragraphs 61–64)

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

**Detailed comments (if any):**

*We commend the IAASB on its efforts to enhance transparency about the auditor’s fraud-related responsibilities and procedures in the auditor’s report. We believe it is in the public interest to be clear about what the auditor is doing in relation to fraud.*

*On balance, the NZAuASB supports the use of key audit matters as an appropriate mechanism for communicating fraud related matters. We see merit in the auditor’s report mentioning fraud-related procedures, when appropriate, and providing insights into what the auditor did to address fraud risks.*



*Practitioners have noted that under existing requirements, if a fraud related matter requires significant auditor attention, it should already be reported as a key audit matter.*

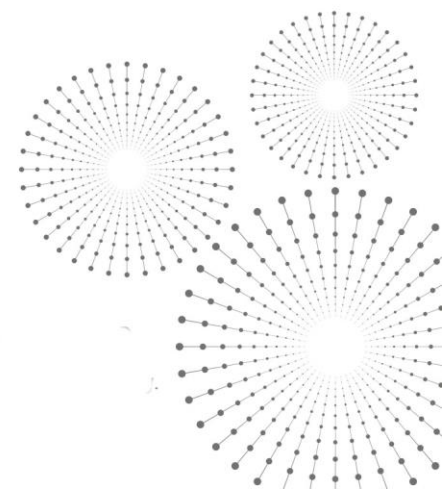
*We have the following concerns with the proposals as drafted:*

- Creating a separate subset of key audit matters may give fraud related matters greater prominence than is warranted. In our view, the requirement in paragraph 63 requiring use of an appropriate subheading that clearly describes that the matter relates to fraud is not necessary. We believe it would be rare for a key audit matter to deal only with fraud and that it is more likely that key audit matters will contain elements of both fraud and error. While we support enhancing transparency and the auditor’s report highlighting fraud considerations more regularly within key audit matters, a heading that highlights “fraud” implies that key audit matters are about either fraud or not. We are concerned that thinking separately about reporting of key audit matters for fraud does not reflect integrating the consideration of fraud into the risk assessment process.*
- We do not support the requirement in paragraph 64. We believe including a statement that there are no key audit matters related to fraud will be confusing for stakeholders and problematic for auditors. 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 entity is “fraud free”, something which the auditor simply cannot do.*

*Our recommendations to address these concerns while continuing to apply the key audit matter mechanism to enhance transparency include:*

- Retain the existing title “key audit matters”, i.e., do not add the words “including matters related to fraud” as proposed in the conforming amendment to ISA 701, paragraph 11. Key audit matters are the matters that required significant auditor attention. We believe that key audit matters will often contain elements of both fraud and error.*
- We agree with and support the requirements in paragraphs 61 and 62 of ED-240, however for the reasons noted above we recommend deleting paragraphs 63 and 64. The application material in paragraphs A172 to A179 is helpful in guiding the auditor to discuss fraud in the key audit matters and could be linked to paragraphs 61 and 62.*

*Increased transparency about fraud-related matters cannot be solved by an auditing standard alone. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. Despite the importance of fraud to stakeholders, there is no requirement for management or those charged with governance to publicly make any assertions about fraud, with the onus falling entirely on the auditor. While auditors have a key role to play, they are not the policemen. The audit expectation gap cannot be addressed without a financial reporting ecosystem response. We therefore urge the IAASB to continue to work with other participants in the financial reporting chain to address this important issue.*



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

**Detailed comments (if any):**

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

*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 support the IAASB decision not to include a separate stand-back requirement in ED-240. The auditor’s consideration of fraud is integral to the audit. We consider that the general stand-backs already in place, for example in ISA 315 and ISA 330, address both fraud and error and are sufficient.*

*Scalability*

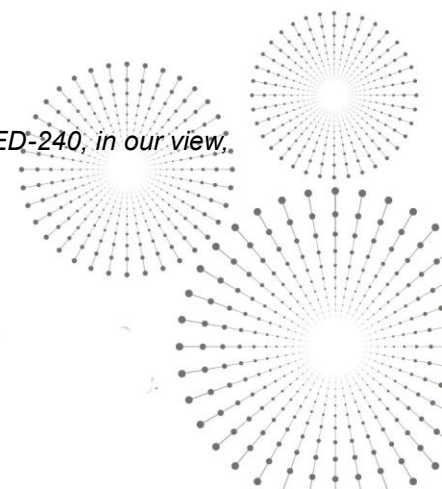
8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities, given that matters related to fraud in an audit of financial statements are relevant to audits of all entities, regardless of size or complexity)?

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

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

**Detailed comments (if any):**

*While we support the efforts of the IAASB in integrating scalability considerations in ED-240, in our view, more could be done to address scalability.*





*For example, 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 encourage the IAASB to include examples relevant to smaller entities to better address scalability.*

*Refer also to our comments on question 4.*

#### *Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, ISA 540 (Revised) and ISA 701) 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):**

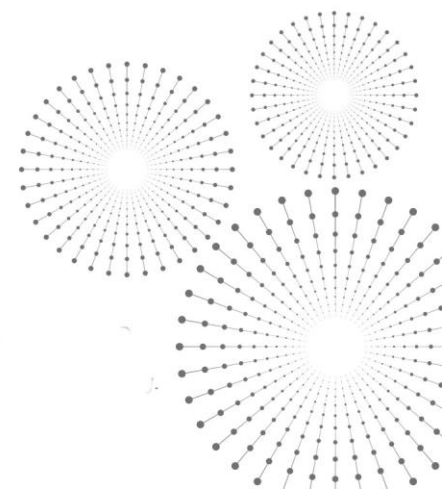
*For the most part, we agree that ED-240 has appropriate linkages with other ISAs. However, we encourage the IAASB to ensure that wording is consistent with other standards. For example, in paragraphs A26 to A29 of ED-240 we note inconsistency in wording compared with similar paragraphs in ISAs 200 and 500 (e.g., genuine vs authentic, terms in a document are modified vs falsified, authenticity of information vs reliability of information). Differences in terminology could lead to unintended interpretation differences.*

#### *Maintenance of ISA for LCE*

*When the IAASB issued ISA for LCE, it indicated there would be a period of stability of at least three years once the standard becomes effective (i.e., the first revision to the ISA for LCE would not become effective before December 15, 2028).*

*Entities of all sizes and complexities are susceptible to fraud. The proposed revisions to ISA 240 fundamentally change the way the auditor thinks about fraud risks in the financial statement audit. We believe that it is in the public interest that these changes on fraud also apply to audit of a less complex entity. We therefore urge the IAASB to have more urgency in considering how revisions to the fraud auditing standard might impact the ISA for LCE, noting that there may be a greater risk of fraud in a less complex entity.*

*We also urge the IAASB to be transparent about its plans to update and maintain the ISA for LCE in line with relevant revisions to the ISAs.*



**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):**

*In our outreach we heard concerns, particularly from small and medium practices, regarding the challenge of how and to what extent to document their thinking about fraud into the audit workpapers. We believe guidance might be helpful in this regard.*

*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 the proposed effective date.*

