

Ref: KLB:TN:RV

20 May 2024

Australian Auditing Standards Board
PO Box 204
Collins Street
West Melbourne VIC 8007

Dear Chair

EXPOSURE DRAFT - PROPOSED ISA 240 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS; AND PROPOSED CONFIRMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAS

We appreciate the opportunity to provide comment to the Australian Auditing and Assurance Standards Board on the Exposure Draft on Proposed ISA 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 "Exposure Draft").

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We acknowledge the International and Australian Auditing and Assurance Standards Boards' efforts to facilitate greater consultation in the standard setting process. We agree with many of the principles of the proposed amendments, however, as noted in our detailed comments the requirement to act on all identified and suspected instances of fraud without applying materiality has the potential to increase costs without increasing value to users of the accounts. Further as communicated previously to the AUASB, we do not believe there are any compelling reasons to expand the applicability of KAMs beyond listed entities and thus we do not agree with the IAASB proposal to expand the differential requirements relating to KAMs to apply to PIEs.

Our detailed responses to the questions contained in the Consultation Paper are attached to this letter, and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

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Please contact either myself or Tim Nesbitt, Director – Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au) or Ronnie Vogt Director – Audit & Accounting Technical (03 8610 5118 or ronnie.vogt@pitcher.com.au), in relation to any of the matters outlined in this submission.

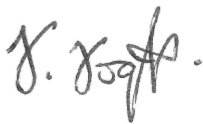
Yours sincerely



K L BYRNE
Partner



T NESBITT
Director, Audit & Accounting Technical



R VOGT
Director, Audit & Accounting Technical

Overall Questions from Consultation Paper – Exposure of the IAASB’s Proposed ISA 240 (Revised) The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements; and Proposed Confirming and Consequential Amendments to Other ISAs

Responsibilities of the Auditor

1. Does IAASB 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?

No, as we believe there are several paragraphs that potentially increase the auditor’s responsibilities as ‘material fraud’ is not specifically referenced or specific language is used which may be misconstrued or imply “all” or “any” fraud. In addition, the phrase “fraud or suspected fraud identified by the auditor” is not clearly and specifically defined in ED-240 which we believe should be included.

We acknowledge the IAASB’s intention is not to expand the role and responsibilities of the auditor relating to fraud in an audit of financial statements (as per paragraph 17 of the IAASB’s Explanatory Memorandum (EM) to ED-240) however the current language in ED-240 may lead to the unintended consequences of increasing the expectation gap around the role and responsibilities of the auditor.

The key paragraphs and recommended actions are as follows:

- Paragraph 2(b) – add the word “material” so it reads as “*Communicate and report matters related to **material** fraud*” or link it directly to 2(a) so it reads as “*Communicate and report on fraud-related matters based on procedures performed in 2(a)*”.
- Include a definition of “fraud or suspected fraud identified by the auditor” within the Definition or Requirements section of ED-240 – paragraph 55 of the EM states that paragraphs A7-A10 and A29 describe what this phrase means, however we don’t believe this is the case and in addition, these paragraphs are only explanatory paragraphs. We recommend the intention of this phrase as detailed in paragraph 55 of the EM be incorporated within the definition to clearly articulate the inclusion of both fraud and suspected fraud (including allegations of fraud) and identified directly or indirectly.
- Paragraph 6 – linked to our point above, we believe the second sentence should be updated for clarity and consistency as it currently states “the auditor may identify or suspect the occurrence of fraud”. We recommend the wording be updated to be “*Although the auditor may identify fraud or suspected fraud*”.
- Paragraph 7 – further to our second point above, reconsider the purpose of this paragraph (in conjunction with paragraphs 6 and 8) and whether it is needed at all. If paragraph 7 remains, we believe it should be directly linked/associated to the definition as per our comment above and should reinforce the auditor’s focus on ‘material’ fraud.
- Paragraph 10 – remove the second sentence which states “*However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.*” as we don’t believe it is necessary and is potentially confusing. In addition, if it is removed there is a more direct connection with the following paragraph which starts with “Furthermore”.

Linked to the above recommendation to include a definition of “fraud or suspected fraud by the auditor”, a similar comment applies to the consistency of terminology used throughout ED-240 as to what is meant by reference to “fraud or suspected fraud”. It seems that allegations of fraud are included within “suspected fraud” however in some paragraphs “allegations of fraud” is separately stated. For example, paragraph 65(c) states “*They have disclosed to the auditor their knowledge of **fraud or suspected fraud, including allegations of fraud, affecting the entity***”. We believe ED-240 should be reassessed to be consistent with the use and understanding of the phrase “fraud or suspected fraud”.

We take this opportunity to emphasise the importance of management’s (and/or those charged with governance’s) role and responsibilities with respect to fraud relating to the financial statements, and we believe the information included in the auditor’s report should be reassessed to clearly and directly articulate this (considering the proposed revisions in ED-240 impacting the auditor’s report). In addition, we believe the IAASB should continue to liaise with relevant stakeholders to communicate management’s (and/or those charged with governance’s) role and responsibilities to assist in decreasing the expectation gap.

For information purposes only:

** EM paragraph 55 - Regarding the first question, paragraphs A7–10 and A29 describe what the phrase “fraud or suspected fraud identified by the auditor” means for the purposes of applying ED-240. The phrase is intended to denote any fraud or suspected fraud affecting the entity that the auditor identifies:*

(a) Directly—when performing procedures in accordance with ED-240 and other ISAs; or

(b) Indirectly—when a party internal or external to the entity brings an allegation of fraud to the auditor’s attention during the course of the audit. Allegations of fraud that are brought to the auditor’s attention are treated by the auditor as suspected fraud for the purposes of applying ED-240.

** ED-240 paragraph 6 - Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations of whether fraud has actually occurred.*

** ED-240 paragraph 7 - The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with this and other ISAs. Suspected fraud includes allegations of fraud that come to the auditor’s attention during the course of the audit. (Ref: Para. A7-A10 and A29)*

** ED-240 paragraph 10 - Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. (Ref. Para. A12)*

** ED-240 paragraph 11 - Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.*

Professional Scepticism

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

Yes, we believe ED-240 reinforces the exercise of professional scepticism, however, we have several recommended enhancements as included below.

We understand the concept and intent of the use of the word “possibility” in paragraphs 12 and 19 of ED-240, however, based on its common generic meaning we believe it could be misinterpreted to potentially broaden the role and responsibilities of the auditor. As a result, we recommend the wording be updated to closer align to the language used in paragraph A21 of ISA 200 as follows:

- Paragraph 12 – reference to “possibility” to be removed so the second sentence reads as *“This includes the auditor being alert to conditions that may indicate material fraud.”*
- Paragraph 19 – reference to “possibility” to be removed so it reads as *“In applying ISA 200, the auditor shall maintain professional skepticism throughout the audit, including being alert to conditions that may indicate a material misstatement due to fraud.”*

We understand the intention of the IAASB (as per paragraph 27 of the EM) to include a list of example conditions in paragraph A26 of ED-240 as this might be helpful to some audit firms and acknowledge they are in a separate box under a heading of “Examples:”,

however we believe the wording of the lead-in sentence and the format of bullet points may contribute to the examples becoming a “checklist” and considered mandatory. As such, we recommend the lead-in wording be updated to read as **“Examples of conditions that, if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor may include:”**.

The concept of “last edited” used in one of the examples within paragraph A26 of ISA-240 is understood however the statement may be potentially misleading depending on the specific electronic tool used and what is captured as last edited (for example, saving a document as a Pdf version could trigger as the last edit). We recommend that the example be updated to include “(as appropriate)” so it reads as: **“Electronic documents with a last edited date (as appropriate) that is after the date they were represented as finalized.”**

For information purposes only:

** EM paragraph 19 - A key issue described in paragraph 19 of the project proposal is that the appropriate exercise of professional skepticism needs to be reinforced, including reminding the auditor of the importance of remaining alert to conditions that may indicate possible fraud and maintaining professional skepticism throughout the audit.*

** ED-240 paragraph 12 - In accordance with ISA 200,9 the auditor is required to plan and perform the audit with professional skepticism and to exercise professional judgment. The auditor is required by this ISA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor’s attention. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit. (Ref: Para. A13–A14)*

** ED-240 paragraph 19 - In applying ISA 200,11 the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. (Ref: Para. A24–A25)*

Risk identification and Assessment

3. Does IAASB ED-240 appropriately build 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?

Yes, we believe ED-240 appropriately builds on the foundational requirements in ISA 315 and other ISAs however we have included several recommended enhancements below.

Paragraph 28 of ED-240 and its sub-heading use the phrase “retrospective review” and refer specifically to applying the requirements of paragraph 14 in ISA 540 (Revised) as per the footnote. We note that this phrase is not actually used in paragraph 14 of ISA 540 (Revised) but is instead introduced in the first explanatory paragraph (A55). We acknowledge this phrase is commonly used with respect to previous accounting estimates, thus we recommend footnote 16 in ED-240 be updated to also make specific reference to the explanatory paragraphs supporting paragraph 14 in ISA 540 (Revised).

We also recommend the last sentence in paragraph 28 of ED-240 be updated to directly reference to the “retrospective review” instead of using the words “that review”. Thus, it would read as **“In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that retrospective review”**.

Paragraph 29 of ED-240 seems to overcomplicate the fraud considerations in engagement team discussions by referencing to “fraud” four times as follows: **“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 or prior years.”** In conjunction with our responses to other questions (especially Question 1), we believe that this could be simplified to be **“A consideration of identified fraud or suspected fraud in the current year or prior years that may impact the overall audit strategy and audit plan”**.

Fraud or Suspected Fraud

4. Does IAASB 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?

Refer to our responses to other questions (especially Question 1) recommending updates to make it clear and consistent that the auditor’s role and responsibilities are focused on ‘material fraud’ and to include a definition of the phrase “fraud or suspected fraud identified by the auditor”. We also note that there is a mismatch with the obligations of the directors and management to communicate about material fraud while auditors have to address all fraud. This should be the other way round, management should have responsibility for communicating all fraud and auditors should be assessing which are material.

We note the purpose of paragraph 55 of ED-240 is for the auditor to obtain further information if fraud or suspected fraud is identified, in order to determine the impact on the audit. Thus, this paragraph relates to any fraud or suspected fraud identified (not limited to ‘material’ fraud). We believe the requirements in (a) to (d) of this paragraph are excessive and onerous for an auditor to perform for all instances of identified fraud or suspected fraud and recommend that ED-240 is updated so (c) and (d) are only required for a ‘material’ fraud.

To accommodate different entity structures and circumstances, the requirement in paragraph 55(a) of ED-240 relating to the level of management should be updated to include “where possible” so it reads as: “*Make inquiries about the matter with a level of management that is at least one level above those involved (where possible) and, when appropriate in the circumstances, make inquiries about the matter with those charged with governance.*”

We acknowledge that paragraph 66 of ED-240 was not significantly revised from the extant ISA 240 (as per EM paragraph 53), however we highlight the requirement to report to an appropriate level of management relates to all instances of fraud or suspected fraud identified by the auditor (not limited to ‘material’ fraud) which is the intention based on the explanatory guidance in paragraph A183 of ED-240. Two aspects we believe may be overlooked or misconstrued are (a) the requirement is not restricted to only ‘material’ fraud identified and (b) the requirement to report to “an appropriate level of management” may still apply when the fraud or suspected fraud is brought to the auditor’s attention from a party internal to the entity (i.e., identified indirectly by the auditor).

For information purposes only:

** ED-240 paragraph 55 - If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter in order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A146–A151)*

(a) Make inquiries about the matter with a level of management that is at least one level above those involved and, when appropriate in the circumstances, make inquiries about the matter with those charged with governance;

(b) If the entity has a process to investigate the matter, evaluate whether it is appropriate in the circumstances;

(c) If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances; and

(d) Determine whether control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud.

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

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

No, as we don’t believe the revisions to key audit matters (KAMs) for matters relating to fraud address the issue of transparency about the auditor’s fraud-related responsibilities and procedures (as stated within paragraph 58 of the EM). In addition, expanding the significant findings the auditor communicates to those charged with governance to specifically reference to fraud-related findings in the auditor’s report (as per paragraph 40

of ISA 700) without any proposed revisions to the responsibilities of management and those charged with governance relating to fraud doesn’t seem appropriate and suggests the auditor has increased responsibilities compared with management and those charged with governance. We believe the revisions are potentially misleading, give too much prominence to fraud-related aspects and increase the expectation gap relating to the auditor’s responsibilities.

Also refer to our responses to Question 1.

Based on how paragraph 61 of ED-240 is worded implies there will be no circumstances when the auditor has communicated fraud-related matters to those charged with governance and determines there are no fraud-related KAMs. We believe this is misleading and may “force” auditors to include a fraud-related KAM simply to comply with this requirement which dilutes the purpose of KAMs and is likely to lead to “boiler plate” wording in KAMs. In practice there may be circumstances whereby the fraud-related matters communicated to those charged with governance only relate to the audit work performed to respond to the presumed fraud risks (management override of controls and revenue recognition) and it may be appropriate to conclude that those matters did not require significant auditor attention and therefore would not be KAMs. We highlight this is referred to in ISA 701.A21 however we note the wording of this paragraph could be simplified to make the messaging clearer.

Paragraph 62 of ED-240 follows on from and references to paragraph 61, however it is not worded well, repeats some aspects within paragraph 61 and also seems to imply there will be fraud-related KAMs. We recommend that paragraph 62 is removed completely, and if specific reference needs to be made to “key audit matters” then this is included within paragraph 61.

Proposed revisions to paragraph A170 in ED-240 and paragraph A181A in ISA 701 suggests there should be one or more matters related to fraud determined to be KAMs and uses wording of “would ordinarily be of most significance in the audit”. The purpose of ISA 701 is for the auditor to communicate matters that required significant auditor attention in performing the audit which will include fraud-related matters where appropriate. We don’t believe it is appropriate to use language in the explanatory paragraphs that implies a requirement for the auditor and an expectation of regulators, thus we recommend these paragraphs be reconsidered.

Furthermore, given the determination as to what constitutes a KAM the differentiation of fraud-related KAMs suggests these are more important or significant than other KAMs. As a result, we don’t believe a change is needed to the name of the Key Audit Matters section of the auditor’s report and we don’t agree with the proposed consequential revision to paragraph 11 of ISA 701 for the heading to be “Key Audit Matters Including Matters Related to Fraud”.

Paragraph 64 of ED-240 requires the auditor to include a statement in the Key Audit Matters section of the auditor’s report if there are no key audit matters related to fraud to communicate. It becomes complicated and potentially misleading (especially when there is a mix of outcomes between fraud-related KAMs and other KAMs) and we don’t believe such a statement is specifically needed as fraud-related KAMs will be included (with an appropriate subheading) if appropriate and if there are no KAMs then a statement is included to that effect. There is potential to confuse users in their understanding of communication of fraud-related KAMs and other KAMs and they may incorrectly interpret a statement by the auditor of “no key audit matters related to fraud” as meaning something broader.

Linked to our comment above, paragraph A177 in ED-240 indicates the presentation in the auditor’s report if the auditor has determined there are key audit matters but none relating to fraud would be: “We have determined that there are no key audit matters related to fraud to communicate in our report.” We don’t believe this is clear and we don’t understand how this statement makes the connection to those key audit matters included in the report.

For information purposes only:

* ED-240 paragraph 61 – In applying ISA 701, the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A162–A168)

- (a) Identified and assessed risks of material misstatement due to fraud;
- (b) The identification of fraud or suspected fraud; and
- (c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud.

* ED-240 paragraph 62 - In applying ISA 701, the auditor shall determine which of the matters determined in accordance with paragraph 61 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A169–A171)

* ED-240 paragraph 63 - In applying ISA 701, in the Key Audit Matters section of the auditor’s report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A172–A174)

* ED-240 paragraph 64 - In applying ISA 701, if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters 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. (Ref: Para. A175–A179)

* ED-240 paragraph A170 - One of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users’ understanding of the financial statements as a whole. As users of financial statements have highlighted their interest in matters related to fraud, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 61, would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

* ED-240 paragraph A177 - The following illustrates the presentation in the auditor’s report if the auditor has determined there are key audit matters to communicate but these do not include key audit matters related to fraud:

[Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] We have determined that there are no key audit matters related to fraud to communicate in our report.

* ISA700 paragraph 40 - The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also shall: (Ref: Para. A50)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

(i) Significant deficiencies in internal control that the auditor identifies during the audit;

(ii) Identified fraud or suspected fraud; and

(iii) Other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance;

* ISA 701 A18A - ISA 240 (Revised) notes that matters related to fraud are often matters that require significant auditor attention and that, given the interest of users of the financial statements, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 61 of ISA 240 (Revised), would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

* ISA 701 A21. ~~However, this may not be the case for all significant risks. For example,~~ ISA 240 (Revised) presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks. In addition, ISA 240 (Revised) indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk. The auditor may determine these matters to be key audit matters related to fraud because risks of material

<p><i>misstatement due to fraud are often matters that both require significant auditor attention and are of most significance in the audit. However, this may not be the case for all these matters. The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention. Depending on their nature, these risks may not require significant auditor attention, and, therefore, these risks would not be considered in the auditor’s determination of key audit matters in accordance with paragraph 10.</i></p>
<p>6. In your view, should transparency in the auditor’s report about matters related to fraud introduced in IAASB ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs</p>
<p>We do not support the extension of KAMs related to fraud to entities other than listed entities. As communicated via previous discussion groups and submissions, there is very limited appetite and no pressing need in Australia to extend the applicability of any KAMs beyond listed entities.</p> <p>Refer to our response to Question 5.</p>
<p>Considering a Separate Stand-back Requirement in IAASB ED-240</p> <p>7. Do you agree with the IAASB’s decision not to include a separate stand-back requirement in IAASB 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)?</p>
<p>Yes, we agree with the IAASB’s decision. Existing stand-back requirements and relevant guidance in other ISAs (including ISA 315 and ISA 330) will apply to audit procedures performed in accordance with ED-240, thus we believe a separate stand-back requirement in ED-240 would be repetitious and is not needed.</p>
<p>Scalability</p> <p>8. Do you believe that the IAASB has appropriately integrated scalability considerations in IAASB 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)?</p>
<p>Yes, we believe scalability considerations are appropriately integrated. However, if amendments are not made to ED-240 based on our responses to the questions above, the practical implications of identified fraud in smaller entities may potentially result in a disproportionate impact on audits of these entities.</p>
<p>Linkages to Other ISAs</p> <p>9. Does IAASB ED-240 have appropriate linkages to other ISAs (e.g., ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520,⁸ ISA 540 (Revised) and ISA 701) to promote the application of the ISAs in an integrated manner?</p>
<p>In general, appropriate linkages to other ISAs are included.</p> <p>Refer to our previous responses, including the proposed reporting in KAMs.</p>
<p>Other Matters</p> <p>10. Are there any other matters you would like to raise in relation to IAASB ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.</p>
<p>We include other matters below relating to documentation and unpredictability in the selection of audit procedures.</p>

<p>We acknowledge paragraph 70 of ED-240 is structured to indicate audit documentation to be included by the auditor and as a result it is not all encompassing of what should be documented. However, it seems to be inconsistent and incomplete to specifically include:</p> <ul style="list-style-type: none"> • point (c) to document <i>“The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, and the rationale for the significant judgments made”</i> without making reference to the responses to address those risks; and • point (e) to document <i>“The results of audit procedures performed to address the risk of management override of controls, the significant professional judgments made, and the conclusions reached”</i> without making reference to the identification and assessment of the risk of management override of controls. <p>One of the examples relating to incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures included within paragraph A114 of ED-240 states <i>“Performing analytical procedures at a more detailed level or lowering thresholds when performing analytical procedures for further investigation of unusual or unexpected relationships”</i>. We believe this should be referring to “substantive analytical procedures” in both cases where it currently refers to “analytical procedures”.</p>
<p>Translations</p> <p>11. Recognising 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 IAASB ED-240.</p>
<p>Not applicable.</p>
<p>Effective date</p> <p>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?</p>
<p>We support the coordination of effective dates with other current projects.</p>

Australian Specific Questions from Consultation Paper – Exposure of the IAASB’s Proposed ISA 240 (Revised) The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements; and Proposed Confirming and Consequential Amendments to Other ISAs

<p>Aus 1 Have applicable laws and regulations been appropriately addressed in the proposed standard and related conforming amendments?</p>
<p>No matters noted.</p>
<p>Aus 2 Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard and related conforming amendments, or may conflict with the proposed standard and related conforming amendments?</p>
<p>No matters noted.</p>
<p>Aus 3 Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard and related conforming amendments, or may conflict with the proposed standard and related conforming amendments?</p>
<p>No matters noted.</p>
<p>Aus 4 What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard and related conforming amendments? If significant costs are expected, the AUASB would like to understand:</p> <ul style="list-style-type: none"> (i) Where those costs are likely to occur; (ii) The estimated extent of costs, in percentage terms (relative to audit fees); and (iii) Whether expected costs outweigh the benefits to the users of audit services?
<p>If ED-240 is released as is and not updated to reflect at least some of our responses above, there may be an unintended consequence of expanding the requirements of the auditor to investigate all fraud and suspected fraud irrespective of materiality. This not only leads to additional time and costs by the auditor, but also adds further to the expectation gap relating to the auditor’s responsibilities.</p> <p>Leaving aside our comment above, at this point in time it is unclear whether the costs will outweigh the benefits. Since there has been no reporting as yet in accordance with ED-240 there is no evidence users of the financial statements will receive a benefit commensurate with the increase in audit work (and audit fees) to respond to the increased requirements of the auditor.</p> <p>As communicated previously in various forums, the Australian research suggests KAMs have been largely ineffective and not necessarily beneficial to users of the financial statements, especially when they devolve to “boiler plate” wording. We believe it is unlikely this will change based on the proposed revisions in ED-240 and the consequential amendments to other standards (including ISA 701). Based on this, there continues to be very limited appetite and no pressing need in Australia to extend the applicability of any KAMs beyond listed entities.</p>
<p>Aus 5 Are there any other significant public interest matters that stakeholders wish to raise?</p>
<p>No further matters noted.</p>