



AUASB Agenda Paper

Title:	ISA 240 – Fraud	Date:	9 May 2024
Office of the AUASB Staff:	Rene Herman	Agenda Item:	3

Objective of this Agenda Paper

The objective of this Agenda Item is for AUASB members to provide input into the updated draft AUASB submission to the IAASB on ED ISA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements; and Proposed Conforming and Consequential Amendments to Other ISAs* (ED-ISA 240).

Questions for the Board

Question No.	Question for the Board
Question 1	What are the views of AUASB members on the updated draft submission to the IAASB as presented at Agenda Item 3.1?
Question 2	Are AUASB members satisfied that the Office of AUASB staff and AUASB Chair finalise the submission to the IAASB, considering AUASB feedback without the need to revert to the AUASB?

Background on Topic

- At the 23 May 2024 AUASB meeting, the AUASB was provided with a draft submission on the IAASB’s Exposure Draft ED-ISA 240 which had regard to feedback received from stakeholders at AUASB roundtable events and other stakeholder outreach.
- At the 23 May 2024 AUASB meeting, Board members were provided with a high level verbal overview of the main themes from the 7 written submissions received on the AUASB’s Consultation Paper on ED-ISA 240. The written submissions were shared with Board members late on 22 May and members had not had sufficient time to consider those submissions. Public submissions have been uploaded onto the [AUASB website](#).
- It was agreed at the 23 May 2024 AUASB meeting that AUASB members will be provided with a revised draft submission to the IAASB, new agenda paper, and a disposition paper sufficiently ahead of a virtual meeting.

Matters for Discussion and Office of the AUASB Recommendations

- The main themes in the draft submission are:
 - Transparency in the auditor’s report and by directors: Refer responses to Questions 1 and 5 in Agenda Item 3.1.
 - Application to clearly trivial fraud or suspected fraud: Refer response to Question 4 in Agenda Item 3.1.

Collaboration with NZAuASB and other standard setters

5. The Office of the AUASB has reviewed a draft NZAuASB submission to the IAASB. The main area of difference between the draft AUASB and draft NZAuASB submissions relates to the response to Question 4. The NZAuASB draft submission does not share the same concern as the AUASB with the practicality and scalability of the requirements in paragraph 55 applying to clearly trivial instances of identified fraud or suspected fraud.

Next steps/Way Forward

6. The submission to the IAASB Exposure Draft is due 5 June 2024. Consistent with the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*, the ultimate content of the AUASB's submission will be determined after balancing all evidence from submissions and consultations. Having regard to AUASB input, the Office of the AUASB and AUASB Chair will finalise and submit the response to the IAASB.
7. The Office of the AUASB will continue to monitor the IAASB's progress through the process of their analysing comments on ED and how these comments are considered by the IAASB. Board members will be updated at Board meetings during 2024 and any key issues discussed.

Materials Presented

Agenda Item	Description
3.1	Draft AUASB submission to the IAASB
3.2	Comments and Disposition Paper

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)	Australian Auditing and Assurance Standards Board (AUASB)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Doug Niven – AUASB Chair
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Rene Herman
E-mail address(es) of contact(s)	rherman@auasb.gov.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.	Jurisdictional/ National standard setter
	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 AUASB is supportive of the auditor's responsibilities relating to fraud as set out in ED-240. The auditor has the primary responsibility for audit quality. While fraud can be more difficult to detect, overall ED-240 appropriately outlines the auditor's responsibilities in obtaining reasonable assurance that the financial report is not materially misstated, whether due to error or fraud.

We also agree that the primary responsibility for the prevention and detection of fraud rests with management and those charged with governance (TCWG). Australian practitioners have highlighted continuing concerns with expectation gaps and that some users of financial reports and others may have a perception that the auditor has sole or primary responsibility for preventing and detecting material fraud.

While recognising the challenges in addressing expectation gaps, there should be appropriate communication and education in national jurisdictions on the responsibilities of management and TCWG. Greater transparency by the auditor should be complemented in due course by jurisdictional requirements for statements by TCWG as to how the risks of material fraud have been identified and addressed.

We also note that securities and audit regulators in Australia and elsewhere have worked to educate and remind management and TCWG on their roles and responsibilities in relation to financial reporting quality, as well as how they can support audit quality. Guidance issued by IOSCO for audit committees and others includes [IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality](#) (January 2019) and [IOSCO Consultation on Goodwill \(June 2023\)](#).

Concerns raised by Australian practitioners in connection with expectation gaps included:

- ED-240 does not adequately convey in all instances that auditors are only responsible for financial statement fraud that could result in a material misstatement. For example, paragraph 2 on the auditor's responsibilities refers to the risk of material misstatement, whereas subparagraph 2(b) on reporting does not refer to the risk of material misstatement.
- Paragraph A21 should state the auditor is not responsible for conducting an in-depth assessment of third-party fraud risk and that a more specific targeted engagement would be required to address those risks. Practitioners noted that the example of a cybersecurity breach in paragraph A16 may be contradictory to the intent of IAASB not to expand the auditor's role.

- The use of the word 'possibility' through ED-240, for example in paragraphs 12 and 19, could be interpreted as potentially broadening the auditor's role and responsibilities. Paragraph 19 should be more closely aligned 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."
- Reversing the order of the introductory paragraphs on the auditor's responsibilities and management's responsibilities.
- Paragraph A12 on the factors that may make it more difficult to detect fraud compared to error (e.g. collusion) should be reinstated into the introductory paragraphs.

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 AUASB considers ED-240 appropriately reinforces the exercise of professional scepticism about matters relating to fraud in an audit of financial statements. However, the IAASB should consider:

- Reinstating the text from extant ISA 240 paragraph 13 "notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance" to remind the auditor to set aside any potential biases and encourage the exercise of professional scepticism.
- Limiting ED-240 paragraph 21 to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud so that it is clear that the auditor is not required to always undertake extensive fraud related procedures throughout the audit.

The second sentence in paragraph 14 of extant ISA 240 on authenticity of documents remains in paragraph 20 of ED-240 - 'If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.'. Australian practitioners have raised concerns that the removal of the first sentence in paragraph 14 of the extant ISA 240 and in ISA 200 - 'Unless the auditor has reason to believe the contrary, the auditor may accept records as genuine' - may infer increased work effort. Australian practitioners believe the first sentence in paragraph 14 of extant ISA 240 should be reinstated.

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 AUASB is strongly supportive of the strengthening of requirements and application material as it relates to risk assessment procedures and related activities. The AUASB is particularly supportive of the following new/enhanced requirements:

- Paragraph 33 of ED-240 focusing on aspects of the auditor’s understanding of the entity and its environment.
- Paragraphs 34-38 of ED-240 focusing on aspects of the auditors understanding of the components of the entity’s system of internal control.
- Paragraph 39 of ED-240 for the auditor to determine whether there are deficiencies in internal control identified relevant to the prevention or detection of fraud.
- Paragraph 16 of ED-240 making the engagement team discussions more robust.

The AUASB makes the following recommendations for the IAASB:

- The rebuttal of the presumption of the significant risk of fraud in revenue recognition should be at the assertion level rather than the account level. The associated inherent risk assessment is performed at the assertion level.
- Further consideration should be given to whether the pressures or incentives for management to commit fraudulent financial reporting and to manipulate the revenue growth or profit, may be less significant for smaller unlisted entities, where owners are also managers. The risks may lie more in the recognition, valuation and presentation of assets and liabilities, affecting banking facilities and covenants.
- Consider including examples specific to public sector entities. For example:
 - The presumed fraud risk for revenue may be more easily rebutted for appropriation funding; and
 - Highlighting the possible greater risk in the public sector procurement / contract management concerning undisclosed conflicts of interest.
- Clarity and consistency across ED-240 paragraphs 42 and 48. ED-240 paragraph 42 requires that management override is always treated as a significant risk, while paragraph 48 seems to indicate

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

that this is not always the case 'irrespective of the auditor's assessment of the risks of management override...'.
'

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):

The AUASB is concerned with the practicality and scalability of the requirements in paragraph 55 applying to all instances of identified fraud or suspected fraud.

The AUASB agrees with the basis of the IAASB's conclusions that an understanding of the fraud or suspected fraud is necessary to inform the engagement partner's determinations as required by paragraph 66; i.e. how do you know the trivial or inconsequential fraud isn't indicative of a wider issue. However, the AUASB considers the absence of materiality reference in paragraph 55, unduly expands the expectations of the auditor and that the requirements described in paragraph 55 are too onerous from both a practical perspective and a documentation perspective.

While supportive of the IAASB's basis for paragraph 55 and in recognising scalability concerns, the AUASB suggests the following:

1. Splitting paragraph 55 with only 55(a) and 55(b) required for all instances of identified fraud or suspected fraud.
2. Paragraph 55(c) and 55(d) are not required where instances of fraud or suspected fraud are clearly trivial.
3. Adding application material supporting paragraph 55 to explain that the tolerance for fraud in the public sector may be such that it would be rare for an instance of fraud or suspected fraud to be considered trivial.
4. Making the requirement in paragraph 55(a) to inquire about the matter with a level of management that is at least one level above those involved, subject to any legislation that may prevent the auditor from making a direct enquiry to management, such as where the auditor is notified of a fraud or suspected fraud by an anti-corruption regulator. Indirect enquiry may be possible.
5. The assessment in paragraph 56 should be imposed on the auditor rather than the engagement partner. In practice it may be made by the engagement partner but that may not be practical in some scenarios, such as large groups with component audits.
6. Paragraph 66 should not require the auditor to communicate frauds or suspected frauds already known to management. This would avoid the possibility of undermining the impact of communicating matters not known to management.
7. Introducing a stand-back requirement at the conclusion of the audit into ED-240 to further address the possibility of an accumulation of matters that alone might be considered clearly trivial. This

would complement the overarching requirement in paragraph 21 of ED-240 for the auditor to remain alert throughout the audit engagement for information that is indicative of fraud or suspected fraud.

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):

On balance, in the public interest and to satisfy the needs expressed by users of financial statements for more transparency about matters related to fraud in the auditor's report, the AUASB supports the proposed transparency through key audit matter (KAM) style reporting in the auditor's report for Listed Entities.

Australian stakeholders have mixed views about increasing transparency in relation to fraud in the auditor's report as it may increase the expectation gap. Professionals have commented that under the current suite of standards, the auditor could already include fraud related KAMs in the auditor's report and that a specific KAM requirement places undue focus on fraud. They were concerned with potentially widening the expectation gap and possible litigation, particularly in scenarios where a material fraud is later discovered but there was no KAM in the auditor's report. Additionally, a fraud matter may still be under investigation at the time of the audit report and communicating the matter in a KAM could create legal risk for both the company and the auditor.

The AUASB suggests the IAASB consider the following:

- Replacing the heading 'Key Audit Matters Including Matters Related to Fraud' in the audit report with 'Key Audit Matters (Including Matters Related to Fraud and Error)' for consistency with the text that appears immediately after the heading. This will avoid over-emphasising the importance of fraud risk compared to risk of error.
- Including appropriate examples in the application material demonstrating that fraud related KAMs are often interlinked with KAMs related to error (e.g. a KAM related to an estimate). Otherwise, KAM related fraud risks may always be treated as stand-alone KAMs, which may drive boilerplate statements.

In due course, national jurisdictions should consider complementing greater transparency by the auditor with more transparency from directors around the responsibilities of management and TCWG in relation to the prevention and detection of fraud, including how the risks of material fraud have been identified and addressed.

Australian practitioners expressed concern with the separate process to identify fraud KAMs and the requirement of paragraph 64 of ED-240 to disclose if there are no KAMs related to fraud to communicate. They consider that some auditors could include boilerplate fraud related KAMs (e.g. in respect of matters such as management override of controls) because of the separate process and to avoid stating that there are no KAMs related to fraud to communicate.

The auditor's report should make it clear that reporting that there are no KAMs related to fraud should be read in the context of the auditor's objective of obtaining reasonable assurance that the financial report as a whole is free of material misstatement, whether due to fraud or error.

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 AUASB's response to the IAASB's PIE Track 2 ED was not supportive of extending the extant differential requirements for communicating KAM to apply to PIEs rather than listed entities only.

In December 2022, the AUASB conducted an Auditor Reporting Post Implementation Review (PIR) and feedback from Australian stakeholders included:

- KAMs should not be expanded to unlisted PIEs in the absence of clear evidence that there would be benefits for users. Stakeholders acknowledged that it is difficult to gather this evidence.
- ISA 701 currently permits auditors of non-listed entities to voluntarily report KAMs, but this is done infrequently because KAMs are not considered valuable for such entities.
- Whilst KAMs are not mandatory in the public sector, a number of public sector audit offices in Australia have adopted the reporting of KAMs for certain entities that they audit, noting they are an effective tool for increasing the transparency of auditors in the conduct of their work.

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: [Disagree, with comments below](#)

Detailed comments (if any):

A stand back provision would be an important part of our suggestion in response to Question 4 to introduce a clearly trivial exclusion from applying all parts of paragraph 55. See our response to Question 4 for more information.

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):

See Response to Question 4.

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.” Additional guidance on what constitutes appropriate and sufficient audit evidence that is required to conclude on the entity’s control environment for smaller entities should be considered.

The examples in ED-240 paragraph A29 may apply mainly to larger, more complex entities (such as references to audit committee, internal audit function and whistleblower program). We recommend including examples relevant to smaller entities to better address scalability.

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: [Yes, with comments below](#)

Detailed comments (if any):*Documentation*

Paragraph 70 of the ISA-240 ED contains detailed documentation requirements but these requirements are not complete. For example, paragraph 70(c) does not require documentation on the responses to identified and assessed risks. While it may be arguable that the principles in ASA 230 *Documentation* are sufficient, the IAASB should consider whether including many detailed documentation requirements but excluding some others might imply to some practitioners that the excluded requirements do not apply in the case of fraud.

The IAASB should also consider the following matters in connection with *communications with those charged with governance (TCWG)*:

- Paragraph 67 requires an auditor to communicate to TCWG identified fraud or suspected fraud involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement in the financial statements. Paragraph 67 should cover all identified fraud or suspected fraud, for example, including third party fraud matters."
- Requiring the auditor to sense check why there is no KAM for a risk or matter communicated to TCWG.

The IAASB could consider providing additional application guidance in the following areas:

- The content of paragraph 55 of the Explanatory Memorandum could be included in paragraphs A7-A9 to make it clear that the phrase "fraud or suspected fraud identified by the auditor" covers both fraud and suspected fraud (including allegations of fraud) and fraud identified directly or indirectly.
- Paragraph A31 could include remote working by members of the engagement team as another example of a circumstance that may impede the exercise of professional skepticism.
- Application guidance could be provided to paragraph 56(b) about the impact of identified or suspected fraud on other engagements including engagements from prior years. Where the fraud impacts on prior periods, it may be useful to cover:
 - the extent of audit procedures for the prior period(s); and
 - whether the auditor should only go back as far as the current period opening balance.
- A decision tree or flowchart could be provided showing the potential progression from alleged or suspected fraud to identified fraud and the iterative nature of fraud risk assessment.
- The example in paragraph A166 could refer to management overlays for ECLs to cover data, assumption and model limitations. Such overlays may also be subject to management bias.

Other matters that should be considered by the IAASB are:

- *Analytical procedures*: paragraph A114 of ISA-240 ED should specifically refer to 'substantive analytical procedures' rather than 'analytical procedures'.

- *Fraud risk factors:* The first sentence of paragraph A22 refers to consideration of fraud risk factors as inherent risk factors. The third sentence of paragraph A22 says that fraud risk factors may also relate to events or conditions that exist in the entity's system of internal controls. There should be clarity that fraud risk factors are inherent risks that may not be adequately addressed by the system of internal controls. If the IAASB is of the view that the system of internal controls could be the source of a fraud risk in itself in the absence of an inherent risk, it would be useful to provide further explanation or examples.

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):



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO. **3.2**

Meeting Date: 31 May 2024

Subject: Comments received on AUASB 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 Conforming and Consequential Amendments to Other ISAs*

Date Prepared: 15 May 2024

Document Type: Consultation Paper

		Page Number
EXHIBIT 1:	Comments received on AUASB 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 Conforming and Consequential Amendments to Other ISAs’	3

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
CA ANZ ¹	Chartered Accountants Australia and New Zealand	15 May 2024
ACAG	Australasian Council of Auditors General	15 May 2024
PP	Pitcher Partners	21 May 2024
Deloitte	Deloitte Touche Tohmatsu	21 May 2024
KPMG	KPMG	21 May 2024
EY ²	EY Australia	21 May 2024
CPA ³	CPA Australia	21 May 2024

¹ Responses received represent staff views only.

² Submission is draft version only and not for the public viewing or distribution.

³ Responses received represent staff views only.

EXHIBIT 1: Comments received on AUASB 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 Conforming and Consequential Amendments to Other ISAs’

No.	Question	Respondent Comment	Office of the AUASB Commentary
Overall Questions from International Explanatory Memorandum			
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?	<p><u>CA ANZ</u></p> <p>We support reordering the introductory paragraphs and describing the responsibilities of the auditor before the inherent limitations of the audit. However, in our view, the responsibilities of management and TCWG (paragraph 3) should come before the responsibilities of the auditor (paragraph 2).</p> <p><u>ACAG</u></p> <p>Overall, we agree that the responsibilities of the auditor relating to fraud are clearly set out and that the requirements and application material are more clearly articulated than the extant ISA 240.</p> <p>Refer to our answer to question 4 for our feedback relating to the expanded fraud and suspected fraud responsibilities.</p> <p>We would like to highlight the following for the Board’s consideration:</p> <ul style="list-style-type: none"> • We appreciate the IAASB’s belief that <i>‘the focus of an auditing standard relating to fraud in an audit of financial statements should be on the role and responsibilities of the auditor and, accordingly, the IAASB described the auditor’s responsibilities in ED-240 before those of management and TCWG’</i>. However, the first line of defence to prevent and detect fraud is the responsibility of management and TCWG. There remains a disconnect with management and TCWG in thinking the responsibility in identifying fraud is 	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>on the auditor. We believe reinforcing management’s responsibility ahead of the auditor's helps to clarify this point.</p> <ul style="list-style-type: none"> • Likewise, by moving the inherent limitations explanation to seven paragraphs after the auditor's responsibilities, diminishes the difficulty an auditor experiences in detecting fraud, particularly when management fraud / collusion is involved. Not all stakeholders read a standard cover to cover and are likely to miss this explanation if it is not directly related to the responsibilities of the auditor. We therefore suggest moving revised paragraphs 9 - 11 under an italicised heading after revised paragraph 3: <i>Inherent limitations on the auditor’s ability to detect material misstatements due to fraud.</i> • To avoid public confusion, we also suggest realigning the first sentence to revised paragraph 2(a) with that of ASA 200.11(a), similar to what was previously in paragraph 5: Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, <i>whether due to fraud or error</i>. If this standard is read in isolation, it appears as though the auditor's responsibility is just related to fraud and therefore may cause confusion with respect to revised paragraph 9 when explaining the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. • The auditor's responsibilities around non-material fraud included in paragraphs 55–59 are clear, and the example scenarios are relevant and useful. We recommend that application paragraph at A11 is also attached to this requirement. 	<p>Covered in response to Question 1 of AUASB submission to IAASB to reinstate paragraph A12 into the introductory paragraphs.</p> <hr/> <p>The lead-in sentence in revised paragraph 2 of ED-240 explicitly refers to the auditor’s responsibilities relating to fraud when conducting an audit in accordance with this ISA, therefore paragraph 2(a) serves a different objective to paragraph 11(a) of ASA 200.</p> <hr/> <p>A11 is associated to the introduction not to a requirement, Office of the AUASB does not consider associating A11 to requirements appropriate.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>PP</u></p> <p>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.</p> <p>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.</p> <p>The key paragraphs and recommended actions are as follows:</p> <ul style="list-style-type: none"> - Paragraph 2(b) – add the word “material” so it reads as “<i>Communicate and report matters related to material fraud</i>” or link it directly to 2(a) so it reads as “<i>Communicate and report on fraud-related matters based on procedures performed in 2(a)</i>”. - 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. 	<p>Covered in response to Questions 1, 4, 10 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB, broader concern is that paragraph 2(b) has no reference to risk of material misstatement.</p> <hr/> <p>Covered in response to Question 10 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>- 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 “<i>Although the auditor may identify fraud or suspected fraud</i>”.</p> <p>- 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.</p> <p>- Paragraph 10 – remove the second sentence which states “<i>However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.</i>” 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”.</p> <p>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 “<i>They have disclosed to the auditor their knowledge of fraud or suspected fraud, including allegations of fraud, affecting the entity</i>”. We believe ED-240 should be reassessed to be consistent with the use and understanding of the phrase “fraud or suspected fraud”.</p>	<p>Office of the AUASB has not included this point - this has not come up through general outreach and other submissions.</p> <hr/> <p>Office of AUASB staff considers that paragraph 7 and associated AM to be essential introductory content so believes this paragraph should remain.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB, AUASB submission makes recommendation to reinstate paragraph A12 into the introductory paragraphs in relation to inherent limitations.</p> <p>For the second point – the Office of the AUASB considers that in subparagraph 65(c), ‘allegations of fraud’ seems to clearly attach to ‘suggested fraud’.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>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.</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p>
		<p><u>Deloitte</u></p> <p>Deloitte agrees that the proposals in the IAASB ED clearly set out the auditor’s responsibilities relating to fraud in an audit of financial statements considering the project objectives to decouple the key concepts of the auditor’s responsibilities relating to fraud and the inherent limitations of an audit related to detecting fraud.</p> <p>Regarding non-material fraud, the IAASB ED clearly indicates that the auditor’s responsibility is related to material fraud and provides a framework to identify how to evaluate if a fraud is material or not, thereby meeting the proposed objective of providing clarity on the auditor’s responsibilities relating to non-material fraud.</p> <p>Deloitte is however, concerned with respect to third-party fraud and the role of the auditor to detect third party fraud. While the definition of fraud in IAASB ED includes reference to third-party fraud, the IAASB 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. That is, the auditor should not plan and perform the audit to obtain reasonable assurance about</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>whether the financial statements as a whole are free from material misstatement specifically due to third party fraud.</p> <p>Furthermore, as currently drafted, the IAASB ED expands on the role of the auditor such that it implies that the auditor is required to identify and detect all forms of fraud. Specifically related to misappropriation of assets, the IAASB ED implies that the expectation of the auditor is to identify and detect any material misappropriation of assets either internally or externally that remain undiscovered. This significantly broadens the auditor’s responsibility related to fraud beyond what the auditor is capable of doing in practice.</p> <p>In relation to the above, within paragraph A133, the first example implies that there is an expectation that the auditor is or should be aware of all fraud schemes that could be linked to a risk of material misstatement. Deloitte suggests updating the wording to link back to the engagement team discussion and fraud risk factors as it relates to fraud schemes that could be relevant to the entity under audit.</p> <p>Proposed wording of paragraph A133 of IAASB ED:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Risks of material misstatement that may be strongly linked to fraud schemes <u>identified during the engagement team discussion</u> that can occur over a long period of time (e.g., complex related party transaction structures that may obscure their economic substance). • Anomalies or outliers in the journal entry data throughout the period that may be detected from the use of automated tools and techniques 	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Concerns in relation to fraud schemes has been covered in response to Question 1 of AUASB submission to IAASB. The suggested wording below has not been included in the AUASB submission as the Office of the AUASB considers the issue to be broader than covered through the example.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>KPMG</u></p> <p>We understand the IAASB intention to clarify the role and responsibilities of the auditor relating to fraud in an audit of financial statements in ED-240. We support the clarification that fraud constitutes an instance of non-compliance with laws and regulation and linkage to ISA 250 and clarification of third party fraud in A21.</p> <p>However, in our view the revisions made, form and presentation of them dilute the current understanding rather than clarify, in particular the following:</p> <p>a) Presenting the auditor responsibilities in the audit report before the responsibilities of management and those charged with governance gives a reader the perception the auditor role is more prominent in fraud matters. This is when the primary responsibility for the preparation and detection of fraud rests with both management and those charged with governance of the entity;</p> <p>b) The de-coupling of the description of the inherent limitations of an audit relating to fraud in the audit report from the paragraphs describing the auditor’s responsibilities in relation to fraud gives a disjointed view to a reader of the scope of audit. We believe that describing the inherent limitations together with the auditor’s responsibilities is fundamental to understanding the auditor’s role and responsibilities relating to fraud in audits and de-coupling these descriptions may further exacerbate the “expectation gap”;</p> <p>c) the statement, introduced at paragraph 9, that “whilst the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, 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”, when uncoupled from risk of error introduces confusion to auditors obligations. We understand that this statement has been</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>included in the UK ISA 240, however, we highlight that, as drafted, this appears to undermine recognition of the inherent limitations of an audit with respect to fraud. We believe that this wording may be interpreted by some as meaning that the auditor is expected to somehow design and perform audit procedures to overcome such inherent limitations to reduce the risk that the audit does not detect a material misstatement resulting from fraud to the same level as the risk of not detecting a material misstatement due to error. Accordingly, we recommend that the inherent limitations and the auditor’s responsibilities are not decoupled, and instead continue to be presented in a similar manner to their current presentation in the extant standard;</p> <p>d) material previously considered a requirement now moved to application material dilutes the clarity of understanding and context it provided for auditor responsibilities. That is, paragraph 6 of the extant ISA, setting out reasons why the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error (such as the fact that this may involve sophisticated and carefully organised schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor, which may all be exacerbated by collusion) has been moved to the application material at A12 in ED-240. We recommend that the IAASB reinstate this material within paragraph 9 in the inherent limitations section in the introduction to the standard, as this provides important context as to both why the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting material misstatement resulting from error, and also why the auditor’s (in)ability to detect a fraud is affected by factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved;</p> <p>e) the determination as to whether a misstatement due to fraud is material or not could benefit from further application material to clarify positions. The standard describes the determination as involving consideration of qualitative</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>The Office of the AUASB considers that paragraph A33-</p>

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		<p>factors, and that these are inextricably linked to whether or not the fraud was perpetrated “intentionally” (paragraph A11(b)). We recommend that the application material provide more guidance as to relevant considerations for an auditor when determining whether intent is present, which may include involving a forensic specialist, and setting out factors to consider, as well as guidance when it cannot be determined whether or not the act was intentional. For example, a suspected fraud is not quantitatively material but involves senior management and it is unclear to the auditor if the act was intentional. This may have further implications for the audit approach given senior management’s integrity may be compromised.</p> <p>Given the audit effort associated with addressing a matter of this nature, the matter may be determined to be a Key Audit Matter (KAM). However, it may be inappropriate to communicate a matter of this nature when the auditor is unable to conclude if it is a material fraud, due to the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. We recommend the application guidance includes a linkage to ISA 701(14) to address this possibility. In this scenario, the public interest would be met by our auditor obligations under ISA 250 to report the matter to an appropriate authority outside the entity; and</p> <p>f) paragraph 11 could further clarify to explain why the risk of the auditor not detecting a material misstatement resulting from third-party fraud may be greater than not detecting a material misstatement due to a fraud that is perpetrated within the entity itself. Given the increasing occurrence of cyber related incidents we recommend that ED-240 provide more guidance to auditors regarding relevant considerations when identifying and assessing risks of material misstatement in respect of third-party fraud and how to respond to these, including:</p> <p>- factors to consider, such as industry-specific circumstances and events or conditions, e.g., collusion opportunities, which may increase the risk of third-party fraud that may be material to the financial statements, as well as</p>	<p>A34 of ED-240 provides guidance and link back to ISA 220 that it is the engagement partner’s determination of whether a forensic specialist should be involved.</p> <hr/> <p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>As a National Standard Setter (NSS) the Office of the</p>

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		<p>jurisdictional-specific risks, e.g., if the entity operates in a jurisdiction that is “higher risk” in terms of fraud;</p> <ul style="list-style-type: none"> - the potential effects of the broader geopolitical and economic environment, e.g., the risk of third-party fraud and cyber incidents may increase during an economic downturn; - “red flags” that the auditor may identify during the course of the audit and should consider further, e.g., vulnerabilities in the security strength of an entity’s internal and perimeter network, anomalies identified in performing analytical procedures, or a party that is a persistent late payer; - specific enquiries that the auditor may make of management and others as to how they assess the risk of third-party fraud, including their risk assessment process related to cybersecurity risks and incidents, and procedures that the auditor may perform to understand any policies/processes the entity has put in place to address such risks; - particular areas of the financial statements that may be more susceptible to third party fraud, e.g., where a third party has custody over assets such as inventory, and related auditor considerations/procedures such as whether the third party is subject to regulation, and whether management has insight into the third party’s control environment, if relevant; - in certain circumstances, the auditor may consider it necessary to obtain access to the third party’s systems, books, records and personnel, to perform audit procedures to address risks of material third-party fraud, such as validating that the entity subject to audit retains title to assets that are held by a third party. Such guidance may emphasise the importance of exercising professional skepticism, and also matters such as the importance of including an element of unpredictability in the audit procedures. 	<p>AUASB considers it appropriate to leave this level of specificity of practical examples to the practitioners to provide directly to the IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>EY</u></p> <p>Additional actions could be taken by others including enhancements to corporate reporting, with a focus on expanding transparency related to directors/management’s responsibilities for prevention of fraud. The sole responsibility does not always rest with the auditor. We also see an opportunity for improvements in corporate governance for public interest entities, such as setting expectations for a system of strong internal control that includes fraud risk specifically, and management and director certifications on the content of financial statements as well as internal control over financial reporting.</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Not within IAASB remit, but partly covered in response to Question 1 of AUASB submission to IAASB.</p>
		<p><u>CPA</u></p> <p>Neither agree/disagree, but see comments below</p> <p>Overall, we are of the view that the Explanatory Memorandum (EM) and the ED only partially clarify the auditor’s responsibilities regarding non-material fraud and third-party fraud. The expectations for inquiries and work related to these areas remain unclear.</p> <p><i>Responsibilities relating to fraud.</i></p> <p>While we agree that the inherent limitations of an audit related to 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 this ED. 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</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>responsibilities regarding fraud have been expanded, thus exacerbating the expectation gap.</p> <p>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 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.</p> <p><i>Non-material fraud</i></p> <p>We reiterate our stance in our Submission on the <i>IAASB Public Consultation on Fraud and Going Concern in an Audit of the Financial Statements Expectation Gap</i> that audit procedures should not be extended to detecting non-material fraud per se, as it likely fails a cost-benefit analysis. Moreover, the IAAASB 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, 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 evades 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.</p> <p>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</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p>

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		<p>includes actions to take when dealing with qualitatively immaterial suspected fraud or allegations of fraud.</p> <p><i>Third-party fraud</i></p> <p>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 <u>indirectly</u> related to the risk of material misstatements in ED-240 paragraph A16 contradicts this intent.</p> <p>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.</p> <p>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.</p> <p><i>Definitions</i></p> <p>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</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 1 of AUASB submission to IAASB.</p>

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		<p>can be problematic without a clear scope of the role of auditors in relation to third-party fraud.</p>	
2	<p>Does IAASB ED-240 reinforce the exercise of professional scepticism about matters relating to fraud in an audit of financial statements?</p>	<p><u>ACAG</u></p> <p>Overall, we agree that professional scepticism is appropriately reinforced through the requirements in paragraphs 19-28. The enhanced application guidance at paragraphs A24-A29 (including examples) will assist auditors in exercising professional scepticism about matters relating to fraud in an audit.</p> <p>We would like to highlight where the additions to the standard could be considered an expansion of the auditor’s role and unintentionally exacerbate the existing expectation gap:</p> <ul style="list-style-type: none"> • The inclusion of ISQM 1 requirements in paragraphs A13-14 with respect to a firm’s commitment to quality and having the appropriate resources to perform a quality audit appears to have been reframed with a fraud lens. Unlike other new additions, the explanatory memorandum is silent on this inclusion. We appreciate that the purpose was likely to reinforce the importance of professional scepticism during an audit, however introducing the fraud lens to ISQM 1 that addresses overall firm quality management could be considered an expansion of scope. • The addition of paragraph 21 '<i>the auditor shall remain alert throughout the audit for information that is indicative of fraud or suspected fraud</i>' could unintentionally be construed that the auditor should always be on the lookout for fraud by undertaking extensive fraud related procedures throughout the engagement. Clarity is therefore required that any additional procedures as a result of ED-240 will not be expected to identify all fraudulent transactions. <p>Specifically in relation to accepting documents as authentic, we have a concern over the removal of the lead in sentence from extant ISA 240 '<i>unless the</i></p>	<p>The Office of the AUASB did not hear this concern from other stakeholders. The Office of the AUASB highlighted this concern with the AUASB at the AUASB 23 May meeting, at that time, the AUASB did not share these concerns.</p> <hr/> <p>Covered in response to Question 2 of AUASB submission to IAASB.</p>

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		<p><i>auditor has reason to believe the contrary, the auditor may accept records and documents as genuine’, could lead to some ambiguity. We acknowledge that this sentence has been included in ISA 200 and the proposed removal is not intended to increase the auditor’s work effort. However, without this context, there may be some confusion as to the application of the proposed paragraph 20. Therefore, we believe it would be useful if application guidance in A28 is expanded to provide more guidance when the auditor suspects documents are not genuine, on what procedures could be performed to confirm documents are genuine. For example, direct confirmations are not always successful or cost effective. This is particularly important as documents are provided electronically and fraudulent electronic documents may be difficult to identify given the multiple ways electronic documents can be generated.</i></p>	<p>Covered in response to Question 2 of AUASB submission to IAASB.</p>
		<p><u>PP</u></p> <p>Yes, we believe ED-240 reinforces the exercise of professional scepticism, however, we have several recommended enhancements as included below.</p> <p>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:</p> <ul style="list-style-type: none"> • Paragraph 12 – reference to “possibility” to be removed so the second sentence reads as <i>“This includes the auditor being alert to conditions that may indicate material fraud.”</i> • Paragraph 19 – reference to “possibility” to be removed so it reads as <i>“In applying ISA 200, the auditor shall maintain professional skepticism</i> 	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p>

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		<p><i>throughout the audit, including being alert to conditions that may indicate a material misstatement due to fraud.”</i></p> <p>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:”.</p> <p>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: “<i>Electronic documents with a last edited date (as appropriate) that is after the date they were represented as finalized.</i>”</p> <p><u>Deloitte</u></p> <p>Deloitte agrees that the proposals reinforce the auditor’s responsibility to apply professional scepticism about matters relating to fraud in an audit of financial statements.</p>	<p>The Office of the AUASB note that this is IAASB drafting conventions, in bold is ‘examples’, so do not intend to raise this point.</p> <hr/> <p>The Office of the AUASB considers that the lead in of ‘that may cause the auditor to believe’ covers any concern.</p>

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		<p>Deloitte would, however, like to note that paragraphs 19 and 21 are repetitive. We propose appending the application paragraphs of paragraph 21 (A29-32) to paragraph 19 and deleting paragraph 21.</p> <p>Additionally, Deloitte acknowledges the paragraph 20 of IAASB ED is similar to the extant ISA 240. However, we would like to raise concern that the authenticity of documents is only one specific example of where professional scepticism should be maintained and therefore, it narrows the requirement to maintain professional scepticism in relation to fraud. We recommend this to be moved to the application material.</p>	<p>The Office of the AUASB consider that paragraphs 19 and 21 have different meanings and accordingly do not intend to raise this point.</p> <hr/> <p>Authenticity of documents has come up as a concern from several stakeholders and covered in response to Question 2 of AUASB submission to IAASB, however this specific concern has not been noted by others. The Office of the AUASB considers the narrowing of paragraph 20 is considered appropriate to have a fraud lens.</p>
		<p><u>KPMG</u></p> <p>We agree ED-240 reinforces the exercise of professional skepticism about matters relating to fraud in an audit of financial statements and we are supportive of the proposed enhancements related to professional skepticism in ED-240.</p> <p>We recommend wording included at paragraph 13 of the extant standard of “notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance”, in discussing the concept of professional skepticism, either at paragraph 19 itself, or in the</p>	<p>Covered in response to Question 2 of AUASB submission to IAASB.</p>

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		<p>related application material at A24-25. We believe that these statements are helpful to remind the auditor to set aside any potential biases resulting from past experience in respect of management and those charged with governance.</p> <p>We welcome the greater emphasis on considerations in respect of the involvement of specialists/ experts, including forensics experts, at various points in the standard. However, we are concerned that paragraph 22, in referring to appropriate competence and capabilities “including... appropriate specialized skills or knowledge”, together with the related application material at paragraph A34, which states that “the nature, timing and extent of the involvement of individuals with specialized skills or knowledge, such as forensic and other experts ... may vary...”, as drafted, appear to suggest that such experts should always be involved in an audit, although such involvement may vary. We do not consider this to be appropriate, and instead we recommend that ED-240 clarify that the engagement partner determines whether to use the work of a specialist/expert, in accordance with ISA 620.7. We further recommend that paragraph A35, in discussing how such specialists/experts could be involved, refer also to their assistance in the evaluation of subjective judgements, assistance in identifying areas of management bias, as well as their expertise in assessing whether there is intent involved when a fraud is suspected (refer to discussion at response 1(e)).</p> <p>We note that paragraph 21 requires the auditor to remain alert for information that is indicative of fraud. We recommend this be expanded to events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (i.e., fraud risk factors).</p> <p>We recommend that paragraph A31 be expanded to include modern working practices such as remote or hybrid working as circumstances that may be encountered which may impede the exercise of professional skepticism of the engagement team.</p>	<p>The Office of the AUASB consider that paragraphs A33 and A34 of ED-240 is clear in this regard and accordingly do not intend to raise this point.</p> <hr/> <p>Covered in response to Question 2 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 10 of AUASB submission to IAASB.</p>

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		<p><u>CPA</u></p> <p>Agree, with comments below</p> <p>Overall, we agree that ED-240 reinforces the exercise of professional skepticism.</p> <p>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.</p> <p>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 Australian Auditing Standards (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.</p> <p>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.</p>	<p>The Office of the AUASB notes that the use of examples in boxes throughout standards is common IAASB drafting and suggests that the bold heading ‘examples’ is clear enough that these are examples. Accordingly, this point has not been raised.</p> <p>ISA 500 only refers to the term authentic once in application material A37, that is specifically linked to ISA 240. The term authentic is used twice in AM in ISA 200 and the term is consistent with that of ED-240. Office of AUASB not intending to raise this matter.</p> <p>Covered in response to Question 8 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>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.</p> <p>Finally, ED-240 retains the term "authentic" from the extant ISA 240. We recommend replacing "authentic" with "reliable" to better align with ISA 500.</p>	<p>Covered in response to Question 2 of AUASB submission to IAASB.</p> <p>Reliable is a wider scope than authentic, authenticity is one aspect of reliability. Accordingly, the Office of the AUASB do not intend to raise this point.</p>
3	<p>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?</p>	<p><u>CA ANZ</u></p> <p>We believe that the ED does appropriately build on the foundational requirements of ISA 315 (Revised), however there are concerns that the ED is repetitive in certain instances as well as being quite circular.</p> <p>While we find that the presumption of risk of material misstatement due fraud in revenue recognition remains relevant, we recommend exploring whether other areas are more applicable, particularly when it comes to audits of SMEs.</p>	<p>The office of the AUASB does not have any specific concerns with repetition of ISA 315 requirements and considers that a certain amount of repetition would be required to contextualise ISA 315 into a fraud lens. Stakeholders at the roundtables were comfortable with the proposals. Without any specific examples of repetition, the Office of the AUASB does not propose including this in the draft submission.</p> <p>Regarding SMEs – Covered in response to Question 3 and 8 of AUASB submission to IAASB.</p>

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		<p><u>ACAG</u></p> <p>Overall, the updated and new requirements in ED-240 build on the foundational requirements in ISA 315, with clear linkages using ‘in applying ISA 315’. The enhanced application guidance, including examples, is also useful.</p> <p>We would like to highlight the following for the Board’s consideration:</p> <ul style="list-style-type: none"> • Paragraph 41 highlights the requirements around the rebuttal of the presumption of the significant risk of fraud in revenue recognition over ‘which types of revenue, revenue transactions or relevant assertions give rise to such risks’. To increase linkage to ISA 315, suggest that it be made clear that the rebuttal would be performed at the assertion level, given the associated inherent risk assessment is performed at the assertion level. • There appears to be an inconsistency between paragraph 42 which explicitly calls out management override of controls as a significant risk and then paragraph 48 which states ‘irrespective of the auditor’s risk assessment of the risks of management override of control ...’. To clarify that management override of controls is a significant risk, we suggest removing the wording we have quoted for paragraph 48 and including the word ‘significant’ in the heading of paragraph 48 so that the heading reads ‘Audit Procedures Responsive to Significant Risks Related to Management Override of Controls’, 	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 3 of AUASB submission to IAASB.</p>

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		<p>acknowledging that the actual audit procedures performed should not be impacted by this wording.</p> <ul style="list-style-type: none"> • Public sector considerations in the examples proposed. The inclusion of examples where fraud risk factors may not be significant within paragraph A111 is useful and inclusion of specific factors relevant to the public sector would be beneficial, particularly public sector matters where one would rebut the presumption, such as: <ul style="list-style-type: none"> o annual appropriation revenue o operational and capital grant funding o administered items o rates revenue for local government. • Additionally, the example in paragraph A106 highlights that misappropriation of funds may be a common type of fraud for the public sector. While the example mentioned may be a risk (though our entities would generally be large enough that one individual does not have sole authority to commit the entity to sensitive expenditure), a greater risk in the public sector is generally in relation to procurement / contract management (undisclosed conflicts of interest, lack of robust independence requirements about the procurement process leading to personal gain for staff etc). Suggest the examples be updated to better reflect the matters encountered in the public sector such as: <ul style="list-style-type: none"> o non-disclosure of conflicts of interest during procurement or contract management processes resulting in undue benefit for some staff, contract and service providers o the potential financial and economic impact of procurement fraud on the operations of government, which may include inflated costs, or reduced quality of supplies or works. The adverse impact may be ongoing due to ongoing 	<hr/> <p>Covered in response to Question 3 of AUASB submission to IAASB.</p> <p>Covered in response to Question 3 of AUASB submission to IAASB. From a NSS perspective, the Office of the AUASB has determined that the granularity of examples has not been included in the submission to the IAASB.</p>

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		<p>maintenance costs or other financial obligations associated with inappropriate procurement</p> <ul style="list-style-type: none"> o increased risks of non-compliance with laws and regulations due to goods and services not being suitable for the requirements identified o a reluctance for honest competitors to tender for other projects in future, leading to an ongoing increase in price and reduction in quality of services provided to the government o payments made for goods/ services not received o advance payments made which are not within the terms of the contract , and way ahead of actual goods received o fraudulent procurement documents, such as quotations and tender documents o contract extensions resulting in inflated costs without proper oversight and adequate support to motivate why these costs are additional and could not be identified during the original tender stage. 	
		<p><u>PP</u></p> <p>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.</p> <p>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</p>	<p>As a NSS we generally do not include this level of granularity in a national jurisdiction submission. We attempt to keep our</p>

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		<p>in ED-240 be updated to also make specific reference to the explanatory paragraphs supporting paragraph 14 in ISA 540 (Revised).</p> <p>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 <i>“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”</i>.</p> <p>Paragraph 29 of ED-240 seems to overcomplicate the fraud considerations in engagement team discussions by referencing to “fraud” four times as follows: <i>“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.”</i> In conjunction with our responses to other questions (especially Question 1), we believe that this could be simplified to be <i>“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”</i>.</p>	<p>submissions to higher level principles.</p>
		<p><u>Deloitte</u></p> <p>Deloitte believes that the IAASB ED is more definitive in the requirements of the auditor as it pertains to fraud related matters.</p> <p>Deloitte would, however, like to note that the project objective of clarifying when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition is not appropriately met by the enhancements in paragraph 27 of extant ISA 240 (paragraph 41 of IAASB ED). If the IAASB has identified a key issue related to the inconsistent application of the rebuttal of the presumption of fraud risk in revenue recognition, Deloitte believes that the IAASB should be clear on what the expectation is related to the rebuttal of fraud risk in revenue recognition. As the proposed standard currently reads, it implies that there is a rebuttable presumption unless stated otherwise which</p>	<p>The Office of the AUASB understands this point, however notes that the Application Material cannot be included as a requirement as there are times where it may be appropriate to rebut – hence the word ‘may’. This would contravene IAASB drafting conventions where the</p>

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		<p>does not change from the way the extant ISA 240 is worded. In order to meet the project objective, the application material clarifying that the significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition, would be more impactful if it were to be moved to the guidance paragraphs instead.</p> <p>Proposed wording of paragraph 41 of IAASB ED:</p> <p>When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors. <u>The significance of fraud risk factors related to revenue recognition, individually or in combination, may make it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.</u> (Ref: Para. <u>A55–A57 and</u> A107–A112)</p> <p>Proposed wording of paragraph A110 of IAASB ED:</p> <p>If fraud risk factors related to revenue recognition are present, determining whether such fraud risk factors indicate a risk of material misstatement due to fraud is a matter of professional judgment. The significance of fraud risk factors (see paragraphs A55–A57) related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.</p>	<p>requirements of ISAs are expressed by using the word “shall.” This would mean auditors could NOT rebut. Accordingly, this recommendation has not been included in the draft submission.</p>

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		<p><u>KPMG</u></p> <p>We are supportive of the changes made to ED-240 to more closely align the standard with ISA 315R to support a more robust risk identification and assessment in relation to fraud in an audit of financial statements. However, we note the following inconsistencies:</p> <ul style="list-style-type: none"> • <i>Applicability of the spectrum of inherent risk:</i> We consider that, as drafted, there is a lack of clarity within ED-240 as to whether and how the concept of the spectrum of inherent risk is to be applied when assessing fraud risks. Risks of material misstatement due to fraud are required to be treated as significant risks, in both the extant standard and in ED-240 (e.g., at paragraph 40(b)), although the reasoning for this treatment is not explicitly stated in ED 240. However, elsewhere in ED-240, where the concept of fraud risk factors is discussed there is reference to the auditor assessing fraud risks, which, if performed in accordance with the requirements of ISA 315R and the concept of the spectrum of inherent risk, indicates that the auditor determines where on the spectrum of inherent risk the fraud risk lies, e.g., in assessing the likelihood of a material misstatement due to fraud arising, the auditor may determine this not to be at the upper end of the spectrum of inherent risk. For example, paragraph 35(a)(ii) states that “in applying ISA 315R, the auditor shall obtain an understanding of how the entity’s risk assessment process assesses the significance of identified fraud risks, including the likelihood [but not magnitude] of their occurrence”. Additionally, paragraphs 26(a) and 40(a) requires the auditor to take into account fraud risk factors when identifying and assessing the risks of material misstatement due to fraud. Furthermore, paragraph A117 refers to the requirement for the auditor to obtain more persuasive evidence the higher the auditor’s assessment of risk. Some of these paragraphs suggest optionality to determining fraud risks as significant risks, by plotting them elsewhere on the spectrum. In the absence of clarity of which is right, the drafting may cause confusion and will result in inconsistencies; 	<p>The office of the AUASB has not heard this concern raised at roundtables or through other submissions, on this basis, as a NSS, we will leave this matter for the firms to raise directly with the IAASB through their global networks.</p>

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		<ul style="list-style-type: none"> • <i>Applicability of fraud risk factors:</i> We note that certain application material, e.g., at A22 and Appendix 1, refers to consideration of fraud risk factors prior to consideration of controls, and that insofar as they affect inherent risk, are inherent risk factors. However, other application material, including also A22, notes that they may also relate to events or conditions that may exist in the entity’s system of internal control, in relation to opportunity. As a result, we believe it is unclear as to whether fraud risk factors are intended to be indicators of fraud, or whether these are intended to be aligned to/more granular examples of the inherent risk factors described within ISA 315R. We recommend that ED-240 more clearly explain how fraud risk factors are to be applied if such application is prior to consideration of controls, and that the application material and appendices be updated accordingly, e.g., many of the fraud risk factor examples related to opportunity involve consideration of controls; • We highlight that the definition of fraud risk factors makes reference to incentive or pressure, and opportunity, but not to attitude/rationalization. However, related application material and appendix 1 provide examples of fraud risk factors that relate to the condition of attitude/rationalization; • Controls: Paragraph 38 references controls that address risks of material misstatement due to fraud specifically, and not more generally due to both fraud and error. However, we highlight that entities will not have clearly documented their internal control structure in light of fraud prevention and detection and may not identify controls that are designed to address risks of material misstatement due to fraud specifically, in the absence of requirements for them to do so. Therefore, management will need to invest a significant amount of time to prepare for providing the auditor such a distinction; and • We also note that ED-240 uses the terms “circumstances”, “conditions”, “events and conditions”, “fraud risk factors” and “information” somewhat inconsistently and also interchangeably. We suggest that the IAASB check 	<p>Covered in response to Question 10 of the AUASB submission to the IAASB.</p> <p>Office of AUASB has no concerns with the Appendix as these are examples only. Attitude / rationalisation are subsets of the definition.</p> <hr/> <p>The requirement at paragraph 38 does not refer to stand alone fraud controls. There is no requirement for distinction in controls. The Office of the AUASB considers this to be clear enough and has not included this point in the draft submission.</p>

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		<p>these references throughout ED-240 to ensure that they are using the appropriate terminology in each instance and are not co-mingling concepts and definitions.</p> <p><u>CPA</u></p> <p>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.</p> <p>We are also concerned that ED-240 over-emphasises the importance of fraud risk, treating it as fundamentally different from other audit risks.</p> <p>Fraud is not inherently exceptional compared to other risks, and there may be more other 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.</p> <p>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. However, this risk is often insignificant for smaller entities, where</p>	<p>A Post Implementation Review (PIR) on ISA 315 is out-of-scope of this submission. The Office of the AUASB does not agree that revisions of standards need to wait on PIRs of other standards, accordingly this point has not been raised.</p> <hr/> <p>Covered in response to Question 3 of AUASB submission to IAASB.</p> <hr/>

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		<p>owners are also managers. In SMEs, risks may lie more in the presentation of liabilities, affecting banking facilities and covenants.</p> <p>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.</p> <p>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.”, the ED 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.</p> <p>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.</p>	<p>Covered in response to Question 3 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 3 of AUASB submission to IAASB.</p> <p>Covered in response to Question 8 of AUASB submission to IAASB.</p> <hr/> <p>The Office of the AUASB notes that there is no requirement for use of forensic experts, this is a judgement based on the nature and circumstances of the engagement regardless of the nature of the firm. The requirement is a consideration of collective competency of an engagement team to plan and perform the engagement as already required by ISA 220.</p>

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			Accordingly, this point has not been raised in the draft submission.
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?	<p><u>ACAG</u></p> <p>Overall, we agree that the requirements around identified and suspected fraud are robust and appropriately supported by the application material.</p> <p>We would like to highlight the following for the Board’s consideration:</p> <ul style="list-style-type: none"> • There is currently no application guidance for the new requirement in paragraph 56(b) to consider the impact of identified or suspected fraud on other engagements including engagements from prior years. For example, where the fraud impacts on prior periods, it would be useful to highlight: <ul style="list-style-type: none"> - the extent of audit procedures for the prior period(s) and - whether you would only go back as far as the current period opening balance. • Whether materiality / significance of the identified fraud be further considered in determining the work effort required. For example, for some large, particularly geographically dispersed public sector agencies, there are likely to be instances of fraud, with some being minor (such as theft of low value assets e.g. office supplies) and others more significant (such as significant procurement fraud). The explicit requirements in paragraph 55 and A10, requiring the auditor to obtain an understanding of each individual matter, (before consideration of materiality / pervasiveness) will likely demand more audit effort. Whilst we acknowledge the inclusion of scalability for the 	<p>Covered in response to Question 10 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p>

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		<p>engagement partner to determine the overall response, the costs to do so may outweigh the benefits in the case where each matter (irrespective of materiality) is required to be assessed.</p> <ul style="list-style-type: none"> • Depending on how the audit team are made aware of the fraud or suspected fraud, legislative requirements (e.g. from a corruption body notification to us) may prevent us from making a direct enquiry to management. Indirect enquiry would be possible. We suggest the standard considers where such circumstances would limit the auditor’s ability to do this. • The impact of local requirements (such as from a corruption watchdog) that may require additional reporting and potentially work effort. 	<hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p>
		<p><u>PP</u></p> <p>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.</p> <p>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</p>	<p>Covered in response to Question 1 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p> <hr/>

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		<p>recommend that ED-240 is updated so (c) and (d) are only required for a ‘material’ fraud.</p> <p>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: <i>“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.”</i></p> <p>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).</p>	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p>
		<p><u>Deloitte</u></p> <p>Deloitte agrees that the IAASB ED appropriately establishes robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit. The structure of the proposed standard follows through logical steps of what the auditor’s responsibility is when fraud or suspected fraud is identified.</p>	<p>Noted.</p>

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		<p><u>KPMG</u></p> <p>We are supportive of the enhancements to ED-240 to address such instances of fraud or suspected fraud including the explicit requirements for the auditor to first understand the matter, and the entity’s process to investigate and remediate, if any. We consider this will drive a more consistent response when fraud or suspected fraud in an audit is identified and fill a gap in the standards for a critical element of an audit response.</p> <p>We have concerns and recommendations in relation to the scalability of the requirements at paragraph 55-56 to situations where a fraud or suspected fraud is not considered material. Whilst we note that paragraphs 57-59 are inherently scalable, as well as including specific reference to materiality determinations (from both a quantitative and qualitative perspective), we believe the requirements at paragraph 55-56 may be unnecessarily onerous in certain circumstances, for example:</p> <ul style="list-style-type: none"> • In respect of audits of larger and more complex entities, including large group audits, as well as audits of entities with operations in multiple locations, e.g., retail entities, where multiple non-material frauds may occur across the entity/group, paragraph 55 appears to require the engagement team to obtain a detailed understanding of every instance of a fraud in order to determine the effect on the audit engagement. Paragraph 56 also requires the (group) engagement partner to consider each and every instance of fraud; • Paragraph 56 of ED-240 explicitly requires the engagement partner to determine, based on the understanding in accordance with paragraph 55, whether to perform additional risk assessment procedures and to design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud. We consider that it may be unduly onerous to require the engagement partner to fulfil this requirement, in particular, when the engagement partner is a group engagement partner. Accordingly, we 	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p> <p>Covered in response to Question 4 of AUASB submission to IAASB where materiality and stand-back requirement are suggested.</p> <hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p>

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		<p>suggest that the requirement be modified to “take responsibility” for these determinations, to enable appropriate involvement of others within the engagement team; and</p> <ul style="list-style-type: none"> • We believe there is a lack of clarity regarding the applicability of paragraph 66. We note that both paragraph 55 and 66 state “if the auditor identifies fraud or suspected fraud, the auditor shall...” In respect of paragraph 55, we believe that the requirements would apply to all instances of fraud, whether identified by the auditor directly, or identified by management and communicated to the auditor, as, irrespective of the origin of the identification, the auditor would need to understand the matter further to determine the effect on the audit engagement. However, in respect of paragraph 66, we do not consider it necessary or appropriate for the auditor to communicate identified fraud or suspected fraud already identified by the entity to management, and instead believe this requirement should focus only on those frauds or suspected frauds identified by the auditor directly that meet the scaling requirements outlined in paragraph 67(a) to (c). We recommend that the IAASB clarify this to avoid unnecessarily onerous communication requirements being placed on the auditor, and to avoid undermining the impact of such communications with unnecessary information that management is already aware of. 	<hr/> <p>Covered in response to Question 4 of AUASB submission to IAASB.</p>
		<p><u>CPA</u></p> <p>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.</p> <p>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 <u>ISA 315 First-time</u></p>	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p> <hr/>

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		<p><u>implementation guide</u>, this tool would map out the execution of requirements and their dependencies based on the outcomes of the preceding steps.</p> <p>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.</p>	<p>Covered in response to Question 10 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 8 of AUASB submission to IAASB.</p>
5	Does IAASB ED-240 appropriately enhance transparency about matters related to fraud in the auditor’s report?	<p><u>ACAG</u></p> <p>The audit profession is already facing an expectation gap dilemma. The inclusion of fraud within the auditor’s report has the potential to widen the existing expectation gap, through:</p> <ul style="list-style-type: none"> • a statement that there are no KAMs related to fraud; or • a KAM for those matters that required significant auditor attention. <p>This is because it implies a level of forensic analysis and testing that isn’t required by ED-240.</p> <p>The inclusion of a specific statement that there are no KAMs related to fraud may also create further confusion as it would not be clear to readers why auditors only specifically call out fraud.</p> <p>Additionally, the reporting of fraud or suspected fraud in an audit may:</p> <ul style="list-style-type: none"> • have unintended consequences by alerting readers to areas of weaknesses that could then be exploited; or • not be feasible if the matter is subject to litigation or ongoing criminal or other investigation; or 	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p>

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		<ul style="list-style-type: none"> • be prohibited to make such disclosure depending on our legislative requirements. <p>We note that we do not audit listed entities and only some jurisdictions voluntarily report on KAMs.</p> <p>Should the proposed increased disclosure remain, we suggest including an additional consideration to clarify the intent of paragraph A168. Paragraph A168 highlights that there may be instances where the risk of material misstatement due to fraud would not require significant audit effort and therefore not be a KAM. We suggest the Board include, for illustration, that where the presumed significant risk of fraud in relation to revenue recognition is rebutted, this is unlikely to lead to significant auditor attention, and therefore not be a KAM.</p>	
		<p><u>PP</u></p> <p>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.</p> <p>Also refer to our responses to Question 1.</p>	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <hr/>

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		<p>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.</p> <p>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.</p> <p>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.</p>	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <p>As a NSS we generally do not include this level of granularity in a national jurisdiction submission. We attempt to keep our submissions to higher level principles.</p>

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		<p>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”.</p> <p>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.</p> <p>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: “<i>We have determined that there are no key audit matters related to fraud to communicate in our report.</i>” 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.</p>	<hr/> <p>Covered in response to Question 5 of AUASB submission to IAASB.</p>
		<p><u>Deloitte</u></p> <p>Deloitte is supportive of the IAASB’s effort to enhance transparency on fraud-related procedures where appropriate, including strengthening communications</p>	

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		<p>with TCWG and the reporting requirements in ISA 240 and other relevant ISAs.</p> <p>However, Deloitte believes that the proposal to introduce Key Audit Matters (KAMs) related to fraud does not meet this objective and may, conversely, have an unfavourable outcome. Accordingly, Deloitte is not supportive of this requirement and associated application material due to the following reasons:</p> <ul style="list-style-type: none"> • A KAM related to fraud would ordinarily be appropriate if there was a fraud that required significant auditor attention in performing the audit and would be of most significance in the audit of the financial statements. In principle, the same KAM should not repeat every year. However, by indicating that it is “rare” that the auditor would not determine at least one KAM related to fraud, the IAASB ED implies that the auditor will be compelled to include in the audit report at least one KAM related to fraud even when there are no matters that required significant auditor attention. When compelled to do so, the auditor may subsequently default to one of the existing presumed risks, such as revenue recognition or management override of controls, to meet the requirements under the IAASB ED. Deloitte believes that this will consequently result in boilerplate language that is not meaningful to a reader of an audit report. Hence, the language of the KAM related to fraud will most likely be generic, broad and at a high-level year-over-year along with other potential KAM requirements (e.g., Going Concern) which gives rise to the risk that when an actual KAM related to fraud needs to be communicated, it would not be evident to the users of the financial statements and may result in the misunderstanding of the significance of a fraud related matter when critical. • Deloitte acknowledges that the IAASB, in proposing this new standard, took steps to try to avoid any fraud related KAMs from being “boilerplate”. However, considering the aforementioned, of the five alternatives provided by the IAASB in paragraph 62 of the explanatory memorandum, Option 1: ‘Describing the auditor’s approach to fraud risks’ may be more effective. This option could be a suitable alternative to achieve the IAASB’s project objective 	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <p>As a NSS we generally do not include this level of granularity in a national jurisdiction submission. We attempt to keep our</p>

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		<p>of enhancing transparency about matters related to fraud in the auditor’s report while mitigating the increased concerns in including a KAM related to fraud in the audit report. Option 1 may enable the auditor to make a positive statement acknowledging the auditor’s responsibility related to fraud in an audit of the financial statements and affirmation that the auditor has complied with such requirements per the standard and could provide entity-specific information in describing the auditor’s approach to identify possible risks of material misstatement related to fraud.</p> <ul style="list-style-type: none"> • As it relates to paragraph 61(b), an auditor should not be required to report matters of fraud or suspected fraud that may not be public knowledge. It should not be incumbent upon an auditor to disclose to the public fraud or suspected fraud, which could later be determined to not be fraud or if management has not reported on such matters. We believe that fraud is a legal determination that should be made by the appropriate authorities and is not a determination to be made, and reported, by auditors. As currently drafted, paragraph 61(b) specifically puts more responsibility on the auditor than management when disclosing such matters. As such, if fraud related matters are incorporated into the audit report, Deloitte believes this will increase the legal exposure of auditors especially if the fraud or suspected fraud is under investigation. Deloitte is uncomfortable that more information could be included in the auditor’s report than what is disclosed in the financial statements. If the IAASB’s intent is to drive management’s disclosure of such matters, the requirement should be brought about through the IASB as management has the primary responsibility to prevent and detect fraud and due emphasis should be placed on management’s or TCWG’s responsibility to address and report on its response to the fraud related matter. If the auditor’s responsibility is extended to reporting on fraud related matters, then a corresponding extension should be reflected in the responsibility of TCWG’s paragraph of the audit report. • In general, Deloitte anticipates there to be heightened sensitivity and variation in practice around how the KAM related to fraud will be articulated by the auditors and be interpreted by the public as users may interpret this additional 	<p>submissions to higher level principles.</p> <p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <hr/>

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		<p>disclosure in the auditor’s report to indicate that there is fraud at the entity, when no such fraud exists. Further, in practice, it would be challenging to have discussions regarding this and obtain management agreement if the auditor would be required to disclose to the public a key audit matter related to fraud that has not previously been disclosed. In reality, it is a relatively rare occurrence for auditors to find fraud. The IAASB ED does not account for instances such as, where there is a fraud that can’t be reported due to legal exposure or it is under investigation, a fraud is uncovered in an area of the financial statements that were not susceptible to material misstatement due to fraud and the auditors have designed and performed all the required procedures appropriately to address the risk of material misstatement of fraud or a misappropriation of assets that has been correctly accounted for and concealed in a manner such that the auditor’s procedures would most likely not uncover the fraud due to collusion. In such instances, when the auditor makes a statement that there are no KAMs related to fraud and such fraud was uncovered after the financial statements have been issued, it will significantly expand the expectation gap of auditor’s responsibility related to fraud in an audit.</p> <ul style="list-style-type: none"> As it relates to paragraph 61, Deloitte believes that ISA 701 offers the appropriate framework and addresses the considerations an auditor should make in determining which matters required significant auditor attention in performing the audit and appropriately addresses fraud. The inclusion of a fraud lens to the filtering mechanism in paragraph 9 of ISA 701 through paragraphs 61 and 62 of the IAASB ED implies the existing requirements in ISA 701 are not sufficient. Furthermore, Deloitte is concerned that by explicitly linking a KAM related to fraud to matters communicated with those charged with governance separate to the requirements stated in ISA 701 would incentivise the auditor to not report certain fraud related matters to those charged with governance. Accordingly, Deloitte believes supplemental requirements related to KAMs in IAASB ED are not required. 	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <p>Covered in response to Question 5 of AUASB submission to IAASB.</p>

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		<p><u>KPMG</u></p> <p>As outlined in our opening comments we are supportive of strengthening reporting on fraud in audit reports and are supportive of the objective to enhance transparency to users about matters related to fraud in the auditor’s report. However, we have concerns in relation to the following:</p> <ul style="list-style-type: none"> • The requirements at paragraph 61-62 may be interpreted as creating a parallel process for the determination of KAMs in respect of fraud, that is separate and additional to the determination of KAMs in respect of other aspects of the audit in accordance with ISA 701.10. The requirement at ISA 701.10 already includes fraud-related matters as an integral part of this determination for the audit as a whole. This may result in teams considering that a fraud-related KAM is always expected to be included in the auditor’s report, even when fraud-related matters were not, in fact, of most significance in the audit, when considered relative to other matters. As a result, we are concerned that this may drive a trend towards inclusion of ‘boilerplate’ fraud-related KAMs, e.g., in respect of matters such as management override of controls, journal entries, or the presumed risks of material misstatement due to fraud in revenue recognition, as auditors may be hesitant to state that there are no fraud-related KAMs. This may result in clutter within the auditor’s report and may detract from important information set out within other KAMs. Any risk of users misreading importance or criticality of auditor reporting matters is not in the public interest; and • This concern may also be exacerbated by the requirement at paragraph 64 to state that there are no KAMs related to fraud, when the auditor determines this to be the case. It is possible that auditors could be reluctant to make such a statement, particularly if they thought users of the report may interpret this as meaning no fraud risks were identified or procedures performed to address risks of material misstatement due to fraud. An unintended result of this may be inclusion of boilerplate fraud-related KAMs in auditors’ reports, which we 	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <p>Covered in response to Question 5 of AUASB submission to IAASB.</p>

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		<p>consider to not be in the public interest. Furthermore, such a statement may be interpreted by users as a form of assurance that there is” no material fraud at the entity” and potentially widen the “expectation gap” in respect of understanding the role and responsibilities of the auditor in respect of fraud. We recommend that the proposed requirement to state there are no KAMs related to fraud be removed.</p> <p><u>EY</u></p> <p>It was discussed on the ISA 240 virtual session held by the AUASB that it appears ‘strange’ that if we did not communicate significant fraud risk or suspected fraud to TCWG and therefore only had our generic fraud risks (e.g. revenue recognition or financial statement closing process) to which we would perform fraud procedures on we would communicate in the audit report we don’t have any key audit matters in this regard and thus to a user, and to an auditor (us) it may not be appropriate, thus we the auditor may include fraud related procedures or KAMs on fraud to prevent such a statement which could have unintended consequences to users. Thus, we feel the expectation GAP will widen in this regard or the KAM inclusions will be generic and not useful. We also question the use of the word “suspected” fraud and exactly what that is in practice. There appears very little guidance in this regard. I therefore reiterate our global comment in this regard <i>“Therefore, we believe that further explanation is needed in the auditor’s report to explain the scope of “matters related to fraud” and further context about how the auditor determines which matters to include in the report when determining KAMs. We also believe that requiring a statement in the auditor’s report that there are no matters related to fraud to be reported may have an unintended consequence of the auditor including boilerplate KAM disclosures in the auditor’s report for the fraud risks presumed by ED-240.”</i></p> <p>We do not believe it is practical for the auditor to perform all the required procedures in paragraph 55 of ED-240 for all fraud or suspected fraud, including those that are clearly inconsequential. We are concerned that the</p>	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p>

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		<p>requirements currently in paragraph 55 could result in unnecessary work effort and documentation by the auditor on matters that are clearly inconsequential. If anything, the procedures in par 55 should include only (a) and (b).</p>	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p>
		<p><u>CPA</u></p> <p>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).</p> <p>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.</p> <p>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</p>	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p> <p>Covered in response to Question 5 of AUASB submission to IAASB.</p>

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		<p>organisation is “fraud free”, something which the auditor simply cannot do and which is the primary responsibility of management and TCWG.</p> <p>At best, the proposed revisions on transparency in the auditor’s report would become a boilerplate, offering little informational value to users.</p>	
6	<p>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><u>CA ANZ</u></p> <p>The area that we have received the most feedback on is the proposals around transparency in the auditor’s report about matters related to fraud. We do not support the proposal due to several concerns, including but not limited to:</p> <ul style="list-style-type: none"> (a) Matters related to fraud would be filtered through the ‘normal’ ISA 701 approach, so we question the need to create a specific subset of KAMs for fraud. (b) It may give fraud more prevalence than it should, taking away the focus on other areas where the risk may be much higher. (c) There is a risk of the wording becoming boilerplate – as the ED creates an expectation that in most instances a fraud-related key audit matter would be reported, which moves it from exception reporting to reporting by default. (d) As a result, the informational value of KAMs could be diluted. (e) It appears to transfer the responsibilities of management/TCWG to auditor – directors have no equivalent reporting requirements. (f) There is a risk it will further increase the expectation gap – a whole of ecosystem response is required. 	<p>Covered in response to Question 5 of AUASB submission to IAASB.</p>

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		(g) The potential impact on auditor liability and professional indemnity insurance premiums.	
		<p><u>ACAG</u></p> <p>Following on from question 5, we have some concerns about the potential expectation gap that an expansion of this requirement to other entities, including non-listed PIEs, may create.</p> <p>An additional consideration in the public sector would be the practical challenge of applying the requirements. For many jurisdictions, KAMs are voluntarily reported at the entity level. For some jurisdictions, the total state sector or whole of government would be considered a PIE, whereas the components are usually non-PIEs. This would have an impact on the audit effort on the components in order for the total state or whole of government opinion to include a KAM regarding fraud.</p>	Covered in response to Question 6 of AUASB submission to IAASB.
		<p><u>PP</u></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>	Covered in response to Question 6 of AUASB submission to IAASB.

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		<p><u>Deloitte</u></p> <p>Considering Deloitte’s response to question (5) as described above highlighting our concerns on including a KAM related to fraud in the audit report, Deloitte does not support expanding the requirements to entities other than listed entities and believes that the scope should be narrow.</p> <p>Refer to those comments made above in question (5).</p>	<p>Covered in response to Question 6 of AUASB submission to IAASB.</p>
		<p><u>KPMG</u></p> <p>We would not be supportive of extending these transparency-related requirements to be applicable to audits of financial statements of entities other than listed entities, e.g. PIEs, at the current time. We consider that, in the absence of a conforming amendment to ISA 701 to broaden its applicability to entities other than listed entities, it would be inappropriate to include such a requirement within ED-240 itself, as otherwise this standard would no longer be aligned with the scope and purpose of ISA 701. If such requirements were to be extended to a mandated broader set of entities, such entities would need to be clearly delineated, e.g., by developing definitions that are capable of consistent application on a global basis.</p> <p>In respect of extending the requirements to PIEs, more specifically, we refer to the IAASB’s recent Exposure Draft, Proposed Narrow-Scope Amendments to ISQMs, ISAs and ISRE 2400R as a Result of Changes to the IESBA Code, which proposes a revised definition and concept of a PIE as well as to extend the differential requirements of the IAASB standards for listed entities to PIEs. In our response to that Exposure Draft we state that we do not, at the current time, support adopting the proposed definition of a PIE or extending the</p>	<p>Covered in response to Question 6 of AUASB submission to IAASB.</p> <hr/> <p>Covered in response to Question 6 of AUASB submission to IAASB.</p>

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		<p>applicability of the differential requirements in the IAASB standards beyond listed entities because we believe that a global baseline for the definition of a PIE, that is capable of being applied on a consistent basis across different jurisdictions, will not be established within the IESBA Code. As a result, this concept may be applied to an unnecessarily broad population of entities where there is no significant public interest in their financial position and therefore it would be overly burdensome from a cost-benefit perspective to apply the differential requirements set out in the IAASB standards for PIEs, in particular, in respect of communicating KAMs.</p>	
		<p><u>CPA</u></p> <p>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.</p> <p>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.</p> <p>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</p>	<p>Covered in response to Question 6 of AUASB submission to IAASB.</p>

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		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.	
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><u>ACAG</u></p> <p>Overall, we believe the stand back requirement is appropriately covered in ISA 315 and other standards.</p> <p><u>PP</u></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>While the Office of the AUASB acknowledges general pushback in this regard, linked into the AUASB response in relation to the scalability of paragraph 55, the AUASB considers a stand back to be important – as covered in response to Question 7 of AUASB submission to IAASB.</p> <p>While the Office of the AUASB acknowledges general pushback in this regard, linked into the AUASB response in relation to the scalability of paragraph 55, the AUASB considers a stand back to be important – as covered in</p>

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			response to Question 7 of AUASB submission to IAASB.
		<p><u>Deloitte</u></p> <p>Deloitte supports the IAASB’s decision to not include a separate stand-back requirement as there is an overall collective stand-back requirement within the IAASB ED and other ISAs, especially within ISA 315 (revised 2019) and ISA 300. This is also consistent with how the other standards have been revised recently by the IAASB.</p>	While the Office of the AUASB acknowledges general pushback in this regard, linked into the AUASB response in relation to the scalability of paragraph 55, the AUASB considers a stand back to be important – as covered in response to Question 7 of AUASB submission to IAASB.
		<p><u>KPMG</u></p> <p>We do not agree with the IAASB’s decision not to include a separate stand-back requirement in ED-240. We understand the IAASB’s rationale that there are stand-backs in a number of recently issued ISAs and the IAASB does not want a proliferation of such requirements. We recommend the inclusion of a specific stand-back requirement in relation to fraud towards the end of the audit, with related application material to address matters to consider prior to forming the audit opinion. We highlight that in many cases it is only at the end stages of an audit, when considering the audit evidence obtained as a whole, including consideration of disconfirming audit evidence, the underlying rationale for certain business decisions and significant or unusual transactions, and whether this is clear and “makes sense” and considering whether the audit evidence as a whole, including explanations obtained, that indicators of</p>	Covered in response to Question 7 of AUASB submission to IAASB.

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		<p>fraud/suspected fraud may be identified requiring the auditor to revise their initial risk assessment.</p>	
		<p><u>CPA</u> Agree (with no further comments)</p>	<p>While the Office of the AUASB acknowledges general pushback in this regard, linked into the AUASB response in relation to the scalability of paragraph 55, the AUASB considers a stand back to be important – as covered in response to Question 7 of AUASB submission to IAASB.</p>
8	<p>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><u>CA ANZ</u> With regards to scalability, the ED was perceived to be more relevant for larger firms auditing complex entities. By way of example, the ED appears to assume that firms have access to forensic experts, which is not normally the case for SMPs.</p>	<p>There is no requirement for use of forensic experts, this is a judgement based on the nature and circumstances of the engagement regardless of the nature of the firm. The requirement is a consideration of collective competency of an engagement team to plan and perform the engagement as already required by ISA 220. Accordingly the Office of the AUASB has not included this point.</p>

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		<p><u>ACAG</u></p> <p>Overall, we agree that scalability has been appropriately incorporated into ED-240.</p> <p>We would however, like to highlight the impact on requiring each fraud matter (regardless of materiality) to be individually considered and the cost implication of such, as identified in our response to question 4. Consistency in practice can also be a concern, increasing the importance of the guidance to demonstrate the application of appropriate scalability.</p>	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p>
		<p><u>PP</u></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>Noted</p>
		<p><u>Deloitte</u></p> <p>Deloitte believes that the current wording will lift the base level of the auditor’s responsibility related to fraud and Deloitte agrees that the IAASB has appropriately integrated scalability considerations in the IAASB ED. We appreciate that a matter such as fraud may be challenging to scale, so the IAASB ED is probably not fully scalable. However, Deloitte is supportive of how the proposed standard is not prescriptive but rather gives guidance on consideration factors and examples in the application paragraphs on how matters related to fraud could be scaled.</p>	<p>Noted</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>KPMG</u></p> <p>We support the scalability considerations in ED-240 including principles based and conditional requirements, differential requirements for listed entities and scalability considerations specific for smaller or less complex entities and scalability in the context of the nature and circumstances of the audit engagement. Refer to discussion at response 4. We note paragraphs 55-56 when there is fraud or suspected fraud and support the examples provided in the application material A146-A153 to obtain an understanding of the fraud or suspected fraud. However, we note further conditional requirements of scalability in the context of the nature and circumstances of the fraud or suspected fraud could be made in the requirements of paragraphs 55-59 and the requirements of paragraph 66 and 69 relating to reporting to management and an appropriate authority outside the entity, respectively, when there is fraud or suspected fraud to exclude isolated instances of clearly trivial matters. Alternatively, the requirements of paragraph 55(a) and (b) may be applicable to all frauds to determine if the matter is clearly trivial and then the requirements of paragraph 55 (c) and (d), 56,59, 66 and 69 scalable to matters that are not clearly trivial. We note the following specifically:</p> <ul style="list-style-type: none"> • In practice, the requirements of paragraphs 55-56 and 59 for a large global group audit are unnecessarily onerous for isolated instances of clearly trivial matters e.g. minor inventory theft from a warehouse; and <p>In respect of paragraph 66, we do not consider it necessary or appropriate for the auditor to communicate identified fraud or suspected fraud already identified by the entity to management, and instead believe this requirement should focus only on those frauds or suspected frauds identified by the auditor directly that meet the scaling requirements outlined in paragraph 67(a) to (c).</p>	<p>Covered in response to Question 4 of AUASB submission to IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>CPA</u></p> <p>Disagree, with comments below</p> <p>Please refer to the above responses to Question 2 and Question 3 for scalability issues.</p>	<p>Covered in response to Questions 2,3,8 of AUASB submission to IAASB.</p>
9	<p>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, ISA 540 (Revised) and ISA 701) to promote the application of the ISAs in an integrated manner?</p>	<p><u>ACAG</u></p> <p>Overall, we agree that the linkages in ED-240 to other standards are appropriate. The addition of a new Appendix identifying other ISAs that address specific topics that reference fraud or suspected fraud is particularly helpful, as are the words ‘in applying ISA XXX’ throughout ED-240.</p> <p>In relation to linkages between ED-240 and ISA 315 for procedures over journals:</p> <ul style="list-style-type: none"> • In paragraph 48, on the assumption that management override is a significant risk (refer comment under question 3 to explicitly call out that that this is a significant risk), there is a requirement to perform procedures over journals. This suggests that controls over journals would therefore address a significant risk. To better align this requirement with ISA 315, we suggest making this explicit in ISA 315 paragraph 26(a). Currently paragraph 26(a) makes a distinction between: <ul style="list-style-type: none"> - ‘controls that address a risk that is determined to be a significant risk’ in paragraph 26(a)(i) and - ‘controls over journal entries...’ in paragraph 26(a)(ii). • ED-240 focuses on journal entries and other adjustments whereas ISA 315 focuses on controls over journal entries. 	<p>Covered in response to Question 3 of AUASB submission to IAASB.</p> <p>As a NSS we generally do not include this level of granularity in a national jurisdiction submission. We attempt to keep our submissions to higher level principles.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>PP</u></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>	Noted
		<p><u>Deloitte</u></p> <p>Deloitte agrees that the IAASB ED does have appropriate linkages to other ISAs to promote the application of the ISAs in an integrated manner. Deloitte would, however, like to note that paragraph 20 of IAASB ED does not have an appropriate linkage to ISA 200 that describes the presumption you can start on, which is the application paragraphs of ISA 200 paragraph 15 (A21 - A25). We recommend the IAASB update paragraph 20 as follows and then include a footnote referring to the specific application material.</p> <p>Proposed wording of paragraph 20 of IAASB ED and footnote:</p> <p>In applying ISA 200,¹ If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A26–A28)</p> <p>¹ ISA 200, paragraph 15 and paragraph A24</p>	Noted and covered in response to Question 2 of AUASB submission to IAASB.
		<p><u>KPMG</u></p> <p>Noting our observations in Q3 regarding 315R linkages, we are generally supportive of the linkages to other ISAs to avoid duplication and promote consistency of application of the ISAs.</p>	Noted

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>CPA</u></p> <p>Agree, with comments below</p> <p>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).</p>	Noted.
10	<p>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><u>CA ANZ</u></p> <p>Our attention was drawn to some potential gaps in the documentation requirements in paragraph 70. For example:</p> <ul style="list-style-type: none"> (a) There is no requirement to document the ongoing fraud discussions with management/TCWG that are required by paragraph 25. (b) Paragraph 70(a) – There is no requirement to document the conclusions reached in the discussion amongst the engagement team, only the matters discussed. (c) Paragraph 70(e) – There is no requirement to document the audit procedures performed to address the risk of management override of controls, only the results of audit procedures performed, the significant professional judgments made, and the conclusions reached. (d) Paragraph 70(f) – There is no requirement to document the audit procedures performed in relation to fraud or suspected fraud identified, only the results of audit procedures performed, the significant professional judgments made, and the conclusions reached. 	Covered in response to Question 10 of the AUASB submission to the IAASB.

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>ACAG</u></p> <p>We are curious to know if the AUASB will add IAASB ED-240 to its agenda for the Public Sector PAG to discuss any specific considerations for public sector entities. We agree with the IAASB's sentiment that matters related to fraud are also relevant to public sector entities, however, there may be additional application considerations to be added to IAASB ED-240's explanatory material or Guidance Statement 023 Special Considerations - Public Sector Engagements.</p> <p>This may be particularly relevant if the public sector examples noted in Q3 response above are not included in the standard.</p>	<p>To be considered separately as part of the AUASB work program go forward. Not a matter for part of the submission to the IAASB.</p>
		<p><u>PP</u></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 	<p>Covered in response to Question 10 of the AUASB submission to the IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>making reference to the identification and assessment of the risk of management override of controls.</p> <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>Covered in Question 10 of the AUASB submission to the IAASB.</p>
		<p><u>Deloitte</u></p> <p>Deloitte does not have any other matters to raise in relation to IAASB ED.</p>	<p>Noted</p>
		<p><u>KPMG</u></p> <p>We would like to highlight the inconsistency in relation to the population of journal entries and other adjustments. Paragraph 49 requires the auditor to design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements which is broader than paragraph A129 which states the population of journal entries may include manual adjustments or other “top-side” adjustments that are made directly to the amounts reported in the financial statements. There is a new requirement in ED-240 Paragraph 50(b) to obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements. Given the inconsistency in the description of the population of journal entries to the application material it is unclear if the intent of ED-240 was to obtain audit evidence about the completeness of the population of all</p>	<p>The staff of the office of the AUASB is comfortable that Paragraph 50(b) and A129 is clear that it is completeness over the population of all journal entries. No other submissions or responses through roundtables raised this matter as a concern. Accordingly this matter has not been raised in the draft submission.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p>journal entries or only manual adjustments and other “top-side” adjustments. In practice, it may not always be practical to obtain audit evidence about the completeness of the population of all journal entries given the complexities of obtaining the full extraction of journal entries from an entity’s ERP system.</p> <p>Paragraph 30 refers to steps the auditor is required to take if responses to inquiries of management, TCWG, individuals within the internal audit function, or others within the entity are inconsistent with each other. We recommend that this requirement be broadened to also refer to when these responses are inconsistent with other audit evidence obtained, with related application material included to discuss the implications.</p> <p>We note that paragraph 70(c) refers to the documentation of “significant judgements made”. We believe this should refer to “significant professional judgements made”, similar to the requirement at paragraph 70(f). In the auditor’s responsibilities section of the illustrations of auditor’s reports in</p> <p>Appendix 5 of ED-240 communications to those charged with governance includes “Identified fraud or suspected fraud”. We note that this is inconsistent to the requirements at paragraph 67 which requires an auditor to communicate to those charged with governance identified fraud or suspected fraud involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement in the financial statements. We recommend that the disclosure in the auditor’s report is consistent with the requirements in paragraph 67. There are no other matters we would like to raise in relation to ED-240.</p>	<p>Para 11 of ISA 500 deals with inconsistency of audit evidence, this para 30 is specific to fraud and inquiries within the organisation. The objective of each paragraph is different. Including part of paragraph 11 of ISA 500 would be considered duplication. As such the office of the AUASB disagrees with this point.</p> <p>Office of AUASB considers this term to be well understood in practice. There is no example report contained in ISA 240. Office of AUASB considers this term to be well understood in practice.</p> <p>Covered in response to Question 10 of the AUASB submission to the IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>EY</u></p> <p>A166 contains an example or a ROMM associated with an estimate of expected credit loss. Within a financial services environment this is one of the KAMs mostly included (in retail banking), most of these are very specialised and have experts/specialists dealing with them on every judgemental input as required by AASB 9, and areas with very little fraud risk if any. This is not historically a fraud risk area within retail banking. The risk is more around the management overlay that may be applied on top of any ECL, where limited support and justification is available which requires significant auditor judgment. The example could be re-written or deleted as it is not a good example to be used. We all know once examples are included in guidance they tend to historically be looked at by our regulator as more than an appendix.</p>	<p>The example seems appropriate whether in financial services or not. The example is not limited to retail banking. It also starts with the assumption of a risk. The risk is not necessarily confined to the management overlay. The overlay is largely to address deficiencies in available data, assumptions and modelling errors. There could be issues with future economic assumptions, changes in product terms, failure to recognise the impact of interest rate changes, etc, etc. For example, even in retail banking the data and assumptions were major issues at the start of the pandemic. We have included a comment about the example in response to Question 10 of the AUASB submission to the IAASB.</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>CPA</u></p> <p>Yes, with comments below</p> <p>Clarity on procedures expected to be directly fulfilled by the engagement partner.</p> <p>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.</p> <p>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 fraud, would be impractical. The role should focus on making determinations rather than performing these detailed tasks.</p>	<p>The staff of the Office of the AUASB considers paragraph 22 to be clear that it is the engagement partner’s responsibility to determine collective team competency, it is not the engagement partner’s responsibility to perform risk assessment procedures.</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	<p><u>ACAG</u></p> <p>No comment.</p> <hr/> <p><u>PP</u></p> <p>Not applicable.</p>	<p>Noted</p> <hr/> <p>Noted</p>

No.	Question	Respondent Comment	Office of the AUASB Commentary
	note in reviewing the IAASB ED-240.	<p><u>Deloitte</u></p> <p>Deloitte does not have any potential translation issues.</p>	Noted
		<p><u>KPMG</u></p> <p>N/A</p>	Noted
		<p><u>CPA</u></p> <p>No response</p>	Noted
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><u>ACAG</u></p> <p>The timeframe is reasonable, given the amended and new requirements will not significantly change current audit approaches/methodology.</p>	Noted
		<p><u>PP</u></p> <p>We support the coordination of effective dates with other current projects.</p>	Noted
		<p><u>Deloitte</u></p> <p>Deloitte is supportive of the effective date for the standard being approximately 18 months after approval of the final standard.</p>	Noted
		<p><u>KPMG</u></p> <p>We believe the effective date proposed would provide a sufficient period to support effective implementation of the ISA.</p>	Noted

Comments received on AUASB 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 Conforming and Consequential Amendments to Other ISAs’

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<p><u>CPA</u></p> <p>No response</p>	Noted

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