



Level 38, International Towers Three  
300 Barangaroo Avenue  
Sydney NSW 2000

P O Box H67 Australia Square  
Sydney NSW 1213  
Australia

ABN: 51 194 660 183  
Telephone: +61 2 9335 7621  
Facsimile: +61 2 9335 7001  
DX: 1056 Sydney  
www.kpmg.com.au

Sub 5 ED 240

The Chairman  
Australian Auditing and Assurance Standards  
Board  
PO Box 204, Collins Street West  
Melbourne, VIC 8009  
Via email: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

21 May 2024

Dear Mr Niven

**AUASB Consultation paper on the 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**

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to the debate that is shaping the Australian economy and welcome the opportunity to provide a submission in response to the AUASB Consultation paper on the 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.

In our 2019 submission to the [Parliamentary Joint Committee on Corporations and Financial Services on regulation of auditing in Australia](#) we supported strengthened reporting on fraud in audit reports. We noted we would support additional content being included in audit reports which communicates the auditor's obligations to detect or prevent fraud, and which further specifies the audit procedures undertaken to address the risk of material fraud as part of the audit. We recommended the content be tailored to the client based on specific knowledge of the relevant industry and avoid the use of 'boilerplate' language. Further, we noted disclosures should enable a user to understand how fraud might occur, and the specific audit tests designed to enable the auditor to obtain reasonable assurance that the financial statements are free of material misstatement.

Overall, we are supportive of the KPMG International position and response to the IAASB's Exposure Draft on proposed International Standards on Auditing 240 (Revised) and our comments in Appendix 1 reflect those of most significance.



One concern highlighted at Appendix 1 is in relation to the requirement to state that there are no Key Audit Matters related to fraud, when the auditor determines this to be the case. KPMG is concerned that 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.

Appendix 1 includes further comments on the International Explanatory Memorandum and AUASBs specific questions for stakeholders outlined in the Consultation Paper.

We would be pleased to discuss our comments further with you.

Yours sincerely

Julian McPherson  
National Managing Partner  
Audit & Assurance

Karen Tanner  
Director – Department of Professional  
Practice

## Appendix 1 – KPMG Australia’s comments on the questions from the International Explanatory Memorandum (EM)

**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)*

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.

However, in our view the revisions made, form and presentation of them dilute the current understanding rather than clarify, in particular the following:

- 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;
- 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”;
- 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 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;

- 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;
- 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 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. 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
- 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:
- 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 jurisdictional-specific risks, e.g., if the entity operates in a jurisdiction that is “higher risk” in terms of fraud;
  - 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.

**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)*

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.

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 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.

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)).

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).

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.

**3. Does 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?**

(See EM, Section 1-F, paragraphs 36–46)

(See ED, paragraphs 26–42)

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:

- *Applicability of the spectrum of inherent risk:* 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;
- *Applicability of fraud risk factors:* 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 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.

**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)*

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.

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:

- 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 suggest that the requirement be modified to “take responsibility” for these determinations, to enable appropriate involvement of others within the engagement team; and
- 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.

**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)*

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:

- 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 mis-reading 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 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.

**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)*

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.

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 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.

**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)*

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 fraud/suspected fraud may be identified requiring the auditor to revise their initial risk assessment.

**8. Scalability: 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)?**

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

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:

- 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
- 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).

**9. Linkages to other ISAs: Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, ISA 540 (Revised) and ISA 701 ) to promote the application of the ISAs in an integrated manner?**  
*(EM, Section 1-J, paragraphs 81–84)*

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.

**10. Other matters: 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.**

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 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.

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.

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 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.

11. **Translations: 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.**

N/A

12. **Effective date: 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?**

*(EM, Section 1-J, paragraphs 115–116)*

*(ED, paragraph 16)*

We believe the effective date proposed would provide a sufficient period to support effective implementation of the ISA.

## **KPMG Australia’s comments on the AUASBs Australian Specific Questions**

### ***Question Aus 1: Have applicable laws and regulations been appropriately addressed in the proposed standard and related conforming amendments?***

Based on our understanding of the Corporations Act 2001, we consider applicable laws and regulations have been appropriately addressed in the proposed standard and related conforming amendments.

### ***Question Aus 2: Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard and related conforming amendments, or may conflict with the proposed standard and related conforming amendments?***

We have not done a comprehensive analysis of other laws or regulations for relevance of this proposal.

### ***Question Aus 3: Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard and related conforming amendments, or may conflict with the proposed standard and related conforming amendments?***

We support the published auditor’s report to be informative and transparent to a user and therefore highlight the narrative in the auditor’s report needs absolute clarity and value adding, insightful comments rather than required KAMs that become boilerplate over time.

Therefore, anything further added to auditor’s reports needs very careful consideration and balance or else the importance of other critical flags in the auditor’s report, such as, modifications, emphasis of matters and other matters that are fundamental for a user to know when assessing the financial position and performance of an entity as a whole for their decision making purposes is diluted.

We are not aware of any other principles and practices considered appropriate in maintaining or improving audit quality in Australia that may prevent or impede application of the proposed standard and related conforming amendments or may conflict with the proposed standard and related conforming amendments.

### ***Question Aus 4: What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard and related conforming amendments? If significant costs are expected, the AUASB would like to understand:***

- ***Where those costs are likely to occur;***
  - ***The estimated extent of costs, in percentage terms (relative to audit fees);***
- and***

- **Whether expected costs outweigh the benefits to the users of audit services?**

We note proposed ISA 240 (revised) paragraph 22 and A35 requires the engagement team to have appropriate specialized skills or knowledge to perform risk assessment procedures. 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 forensic 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 forensic specialist/expert, in accordance with ISA 620.7.

We note ED-240 includes greater clarity around the auditor’s response and new requirements when fraud or suspected fraud is identified. The auditor’s work effort to obtain an understanding of *all* fraud in these circumstances will add considerable costs to the audit. Further, we note the growing demand for forensic specialized skills by accounting employers is attributed to an increasing trend of corporate failures and fraud. However, forensic accounting education has become an increasingly significant issue in Australia in recent years due to the interdisciplinary nature of forensic accounting and being frequently omitted from university programs. Therefore, we expect capacity constraints in forensic specialized skills in Australia to be able to address the new requirements in ED-240.

**Question Aus 5: Are there any other significant public interest matters that stakeholders wish to raise?**

No other significant public interest matters to raise.