

IAASB
529 5th Avenue
New York, New York 10017
USA

Paris, 3 June 2024

Référence : 20240245

Objet : Response to the ED of Proposed ISA 240 (Revised)

Dear President,

In our respective capacity as Presidents of the CNCC and CNOEC, we are pleased to submit to you the comments of the French profession to the ED of proposed ISA 240 (Revised).

First, we agree that fraud is certainly a major issue of public interest. It is also high on the agenda of the regulators, and we understand why the IAASB has therefore re-opened ISA 240.

However, fraud (together with going concern) is also one major component of the expectation gap, and we are concerned that the ED, in its attempt to improve transparency in the auditor's report as to what was done in the audit and what was found (or not found) regarding fraud may widen the expectation gap, rather than close (or reduce) it.

Management and internal controls are the first lines of defense against fraud. They will always be the most efficient way to prevent and detect fraud and it is important that all stakeholders understand that. The audit is designed to identify and respond to risks of material misstatements in the financial statements whether due to fraud or error. It is designed to provide assurance to the users that the financial statements prepared by management gives a true and fair view so that they can rely on it to base their economic decisions. The audit is not specifically designed to detect fraud and, unless the auditor is specifically engaged to assess the efficiency of internal controls, the audit is not designed either to prevent fraud.

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

COMPAGNIE NATIONALE DES
COMMISSAIRES AUX COMPTES
200-216, rue Raymond Losserand
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200-216, rue Raymond Losserand
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This is why we recommend drafting very carefully the paragraph in the auditor's report which says that the auditor has no key audit matters to report, including matters related to fraud, in order not to give to the reader the impression that the audit guarantees a total absence of fraud.

We have proposed some drafting amendments to that paragraph in our detailed comments below.

Finally, we do not support extending these auditor's reporting requirements beyond the remit of listed entities (i.e. not to all PIEs), because extending it beyond listed entities (i.e. to all PIEs) could create a misalignment between what the entity must publicly disclose and what the auditor has to say in its auditor's report.

You will find below our detailed responses to the questions in the ED.

Should you have any questions, please do not hesitate to contact us.

Yours Sincerely,



Yannick OLLIVIER
Président de la Compagnie Nationale
des Commissaires aux Comptes



Cécile de SAINT-MICHEL
Présidente du Conseil National de
l'Ordre des Experts-Comptables

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) | CNCC - CNOEC |
| Name(s) of person(s) responsible for this submission (or leave blank if the same as above) | |
| Name(s) of contact(s) for this submission (or leave blank if the same as above) | Cédric GELARD |
| E-mail address(es) of contact(s) | Cgelard@dipacint.com |
| 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. | Europe |
| | If "Other," please clarify. |
| The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option. | Member body and other professional organization |
| | If "Other," please specify. |
| Should you choose to do so, you may include information about your organization (or yourself, as applicable). | |

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, question no. 10 in Part B allows for raising any other matters in relation to the ED).

Information, if any, not already included in responding to the questions in Part B:

PART B: Responses to Questions for Respondents in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Responsibilities of the Auditor

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?

(See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)

(See ED, paragraphs 1–11 and 14)

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

Detailed comments (if any):

Based on the premise that the auditor's role is primarily to identify material misstatements in the financial statements whether due to fraud or error and not to detect fraud committed by third parties, particularly when such fraud does not raise a risk of material misstatement of the financial statements, we consider that the auditor's role should be limited to third-party frauds that raise a risk of material misstatements in the financial statements.

In addition, we believe that the term "third-party" needs to be clarified: does this term refer to all external parties, i.e. other than management, governance and employees? Or does it refer to third parties with which the entity has some sort of contractual agreements? At present the guidance around third parties (paragraph A21 below) refers to customers, suppliers, service providers, or **other external parties**. It should be clarified who those other external parties are. Are they "other **similar** external parties"? I.e. similar to customers, suppliers, service providers, etc.? Or are they "all other external parties"? i.e. the rest of the world. Is a hacker or a shoplifter a third party in the meaning of the standard?

Moreover, paragraph A21 states that "*Fraud as defined in paragraph 18(a) can include an intentional act by a third party. Fraud or **suspected** fraud committed against the entity by customers, suppliers, service providers, or **other external parties** is generally described as third-party fraud.*"

The notion of "suspected third-party fraud" combined with the notion of "other external parties" further broadens the scope of the standard and increases the risk of widening the expectation gap.

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

Detailed comments (if any):

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 no further comments)

Detailed comments (if any):

Fraud or Suspected Fraud

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)

(See ED, paragraphs 55–59 and 66–69)

Overall response: Agree, with comments below

Detailed comments (if any):

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

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

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

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

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

This paragraph needs to be clarified regarding the meaning of “*If the auditor identifies fraud or suspected fraud*”. Does it mean that all these requirements are applicable when the auditor identifies a fraud that was not previously identified by Management or when any fraud comes to his/her attention?

Requirements and work effort when a fraud is identified should be different depending on:

- whether the fraud was previously identified by Management or not,
- whether the fraud was committed by a third party or by someone inside the entity’s organization,
- whether the fraud has a material impact on the financial statements or not.

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

By differentiating the treatment of identified fraud depending on the circumstances of their discovery and occurrence, the auditor would be able to adapt its work effort to focus on the most “serious” frauds. In the simplest cases such as a fraud committed by a third-party, already identified by Management and without significant impact on the financial statement, the auditor would not deploy the full set of procedures required in paragraph 55, (a), (b), (c), (d).

Finally, the auditor could be explicitly authorized to adopt a “grouped” approach to address frauds of the same type and with the same potential impact on the financial statements such as all petty theft committed by third parties (e.g. shoplifters in the retail industry).

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):

In proposed conforming amendments to ISA 701, we believe that paragraph A58, which illustrates the presentation and wording of the paragraph in the auditor’s report when the auditor has determined that there are no key audit matters to communicate (“*We have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report*”), risks being misunderstood.

Indeed, we believe that using that wording can be understood as a **total absence of fraud** and not as a non-disclosure of insignificant fraud, which may increase the expectation gap.

It should be clarified by adding the following wording: “*As part of our determination of which matters were of most significance in our audit, we have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report.*”

We also suggest the following wording to clarify the independent auditor’s report paragraph related to KAM:

“Key audit matters, including matters related to fraud, are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. These are not an exhaustive list of all significant matters addressed in the audit and communicated to Those Charged with Governance.”

In addition, the communication of the absence of a KAM related to fraud in the auditor’s report could have the unintended consequence of encouraging boiler plate KAMs on the risk of management overriding controls, in many auditor’s reports.

We agree that transparency in the auditor’s report regarding fraud is a matter of public interest. However, we believe that the existing KAM mechanism in ISA 701 already covers matters related to fraud that are of most significance in the audit.

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 revision of ISA 240 must be coherent with the IAASB's initiative to revise the International Standards on Quality Management (ISQMs), International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement, to be consistent with the revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code.

However, with the new and larger definition of PIE proposed in the revision project, there may be a risk that the auditor will become, through certain KAMs, first-hand provider to the Public of information not disclosed by the entity, as not all PIEs have the same requirements in terms of public reporting as listed entities (while listed entities have to report publicly any information that may have an incidence on the share price, other PIEs do not have that requirement and may not have communicated any information publicly). Therefore, we do not support extending transparency in the auditor's report about matters related to fraud introduced in ED-240 to all PIEs.

Considering a Separate Stand-back Requirement in ED-240

7. Do you agree with the IAASB's decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

(See EM, Section 1-J, paragraphs 107–109)

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

Detailed comments (if any):

Scalability

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

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

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

Detailed comments (if any):

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² ISA 220 (Revised),³ ISA 315 (Revised 2019), ISA 330,⁴ ISA 500,⁵ ISA 520,⁶ ISA 540 (Revised)⁷ and ISA 701⁸) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

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

Detailed comments (if any):

We take the opportunity of our response to this question to point out that the architecture of the ISA for LCE, which approach is consistent with the audit approach, shows that there are other ways of structuring the ISAs than dealing with the different subjects by thematic order (fraud, related parties, laws and regulations, etc.), as is currently the case in the ISAs. The present structure of the ISAs is a heritage of the past, built over the years, which is increasingly difficult to understand since it does not clearly convey the flow and the integrated and iterative approach of today's audits.

We also suggest that the document "The Fraud Lens – Interactions Between ISA 240 And Other ISAs" (May 2022) be updated.

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):

Paragraph 43 EM "enhancements include changing the work effort verb from "evaluate" to "determine" to adhere to the CUSP Drafting Principles and Guidelines" refers to the CUSP publication.

This could be an opportunity to provide easy access to the final version of the CUSP publication. For the moment, only a draft 2022 version is available, and it is not easy to find on the IAASB website.

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*

Translations

11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.

Overall response: [No response](#)

Detailed comments (if any):

Effective Date

12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the Going Concern project and the Listed Entity and PIE – Track 2 project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Would this provide a sufficient period to support effective implementation of the ISA?

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

(See ED, paragraph 16)

Overall response: [See comments on effective date below](#)

Detailed comments (if any):

Considering that all these projects are impacting the auditor's report, we think it is essential to coordinate effective dates with the PIE and going concern projects.