

## 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)	Center for Audit Quality
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Dennis McGowan Emily Lucas Lucy Wang
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	<a href="mailto:dmcgowan@thecaq.org">dmcgowan@thecaq.org</a> <a href="mailto:elucas@thecaq.org">elucas@thecaq.org</a> <a href="mailto:lwang@thecaq.org">lwang@thecaq.org</a>
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">North America</a>
	If "Other," please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">Member body and other professional organization</a>
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, 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:** [Neither agree/disagree, but see comments below](#)

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

The CAQ appreciates the opportunity to share our views and provide input on the questions included in the International Auditing and Assurance Standards Board's (IAASB or the Board) Exposure Draft, *Proposed International Standard on Auditing 240 (Revised): The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, including Proposed Conforming and Consequential Amendments to Other ISAs* (referenced herein as the Exposure Draft, ED-240, the proposed requirements, or the proposal).

The CAQ is supportive of the IAASB's efforts to clarify and enhance the auditor's responsibilities relating to fraud in an audit of financial statements, including highlighting the importance of professional skepticism in the audit, as a means of enhancing public trust in financial reporting. We appreciate that the IAASB has incorporated into ED-240 the feedback from stakeholders on their previously issued discussion paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit* (September 2020). However, we have certain concerns with the proposed requirements, as described below.

### Stakeholder perceptions/expectations regarding fraud in an audit of financial statements

Many of the revisions to extant requirements and linkages to ISA 315 (Revised) included in the proposal, including the proposed changes that highlight the importance of the auditor's professional skepticism, would serve as good reminders to auditors as they assess and respond to the risk of material misstatement due to fraud in performing financial statement audits. Additionally, the procedures outlined in the proposed requirements are generally consistent with what many auditors do today when assessing and responding to risks of material misstatements due to fraud in applying extant ISA 240 and ISA 315 (Revised), as well as when fraud is identified or suspected (e.g., in the public company context, because of additional requirements embedded in Section 10A of the Securities Exchange Act of 1934). As such, we are generally supportive of the proposed amendments (subject to the concerns expressed herein), and we believe that the benefit of the standard will be to promote more consistency in the procedures performed by auditors to comply with their responsibilities in determining that the financial statements are free of material misstatement due to fraud. Additionally, given that the IAASB's previously issued discussion paper on this topic was initially focused on the "expectation gap," an appropriate balance must be struck to ensure that the final standard is not inadvertently expanding the expectation gap if it is interpreted as requiring a fundamental shift in auditor behavior.

As such, we believe it is important that the IAASB effectively manages expectations through communications and education regarding what the proposed changes are and what they can reasonably

be expected to achieve. We recommend that the Board include such communications as part of implementation guidance once the standard is finalized, potentially in the form of publications, videos, webinars, etc. Education could also come in the form of additional guidance related to what is expected from each participant in the financial reporting ecosystem with respect to the prevention and detection of fraud, which may help further narrow the expectation gap. Such clarity as to what is expected of management and those charged with governance (TCWG) could help users of the financial statements understand how the responsibilities of management, auditors and others interrelate.

Potential unintended expansion (or perceived expansion) of the role and responsibilities of the auditor

Paragraph 17 of the Explanatory Memorandum that accompanies ED-240 indicates that the IAASB is not seeking to expand the role and responsibilities of the auditor relating to fraud in an audit of financial statements.<sup>1</sup> We are supportive of this intention. We are concerned, however, that certain proposed wording changes and additions that may not be intended to be significant could unintentionally expand the role and responsibilities (or the perceived role and responsibilities) of the auditor. Specifically, we considered the following areas and examples and provide suggestions to address each:

*Responsibility for the prevention and detection of fraud*

- As described in the explanatory memorandum, the IAASB has proposed changes in extant ISA 240 to describe the auditor's responsibilities before those of management and TCWG as they believe that 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.<sup>2</sup> As the primary responsibility for the prevention and detection of fraud continues to rest with management and TCWG, we believe that it is important to avoid the perception or implication that the roles or responsibilities of these groups under ED-240 differ from those under extant ISA 240.
- We recommend that the Board consider including a brief lead-in sentence in ED-240.02 to clarify this point. Specifically, we suggest the following revision to paragraph 2 of ED-240 (deletions are ~~struck through~~, additions are marked as underlined):
  2. While the primary responsibility rests with management and those charged with governance of the entity, ~~the~~ auditor's responsibilities relating to fraud when conducting an audit in accordance with this ISA, and other relevant ISAs, are to: (Ref. Para. A1)
    - (a) 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. These responsibilities include identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address those assessed risks.
    - (b) Communicate and report about matters related to fraud.
- Additionally, any efforts by the IAASB to communicate and educate stakeholders regarding what the proposed changes are and what they can reasonably be expected to achieve (as referenced above) could include reminding users about the responsibilities of management and TCWG for prevention and detection of fraud and to explain what the audit is and is not.
- We also believe that all other participants in the financial reporting ecosystem, including internal and external auditors, audit committees, and management, should continue to educate the public and users of the financial statements as to their respective roles and responsibilities

---

<sup>1</sup> Refer to ED page 8 of 162, paragraph 17.

<sup>2</sup> Refer to ED page 8 of 162, paragraph 16.

when it comes to deterring and detecting fraud. Such clarity as to what is expected of management could help users of the financial statements understand how the responsibilities of management, auditors and others interrelate. For example, more fulsome disclosure by entities about their processes and controls could be helpful to users of financial statement (e.g., a statement by management on the effectiveness of internal controls over financial reporting, including controls related to fraud, for certain entities).

- Further, we would recommend that the Board consider whether any potential new or revised requirements in the ISAs would achieve the objectives in the exposure draft without complementary systemic changes. The enactment of the Sarbanes-Oxley Act (SOX) in the United States in 2002 and its cascading impact have helped to highlight the shared responsibility of fraud deterrence and detection among those charged with governance, management, and internal and external auditors. The Securities and Exchange Commission's (SEC) guidance for management related to management's report on internal controls,<sup>3</sup> together with the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework, provide management and boards of directors a means to identify and analyze risks, and to develop and manage appropriate responses to risks within acceptable levels and with a greater focus on anti-fraud measures. Additional regulatory actions, such as the establishment of the SEC's Whistleblower Program, have placed greater attention on fraud detection to complement actions by auditors. We encourage the Board to work collaboratively with others in the financial reporting ecosystem to seek holistic solutions where possible. As the primary responsibility for fraud deterrence and detection rests with management and TCWG, we believe that any potential solution should align with, and consider the efforts by, the International Accounting Standards Board (IASB) and International Ethics Standards Board for Accountants (IESBA), among others.

#### *Authenticity of records and documents*

- We acknowledge that, in accordance with ISA 500, *Audit Evidence*, auditors are required to consider the relevance and reliability of information to be used as audit evidence. However, we are concerned that the proposed amendments in ED-240 related to the authenticity of records and documents could have unintended consequences related to the auditor's responsibilities, or the perceptions of those responsibilities, in this area. The proposed amendments could create confusion for auditors and could contribute to an expectation by financial statement users about what is required to be and/or has been performed by an auditor with respect to authenticating documents and records that does not align with the intended requirements of ED-240.
- As described in paragraph 25 of the Explanatory Memorandum that accompanies ED-240, the IAASB is proposing to delete from ED-240.20 (extant ISA 240.14) the explanatory lead-in sentence, "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." The Explanatory Memorandum goes on to explain that the deletion is being proposed because the same sentence is already included in ISA 200.A24 and that the proposed deletion is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained during the audit.<sup>4</sup> We are concerned that, as a result of the deletion of the lead-in sentence in ED-240.20, auditors may view ISA 240 and ISA 200 to be inconsistent with regards to the requirements of the auditor

---

<sup>3</sup> <https://www.sec.gov/files/rules/interp/2007/33-8810.pdf>

<sup>4</sup> Refer to ED page 10 of 162, paragraph 25.

around the authenticity of records and documents, which could create confusion and inconsistency in performance by auditors.

- Further, the language in extant ISA 240.A9, which states that “An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication,” has also been excluded from ED-240. We believe that this language provides important context and we are concerned that its elimination could unintentionally imply to auditors and/or financial statement users that the expectations or requirements of auditors with respect to these considerations (i.e., frequency with which authentication procedures are being performed, expertise in authentication) have changed.
- Additionally, ED-240.A26 provides examples of conditions that 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. We believe that in performing audit procedures, auditors (at least in some cases), may not become or be made aware of, or may not be able to discern, the existence of the example conditions listed in ED-240.A26. We are concerned that the extent and nature of the examples included in ED-240.A26 could imply an expansion of the role and responsibilities of the auditor related to validating the authenticity of records and documents in performing the audit.
- We recommend that the Board consider retaining the aforementioned extant explanatory lead-in sentence in ED-240.20. To the extent the Board feels strongly that the language should not be repeated in ED-240, we encourage the Board to include a reference to ISA 200.24 within ED-240.20 in order to clarify that the auditor’s responsibilities in this area are the same under the two standards. Additionally, we recommend that the Board consider retaining the language from extant ISA 240.A9, which could be included in ED-240.A26.

#### *Other examples*

- The language in extant ISA 240.6, which states that “While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error,” and the language in extant ISA 240.A23, which states that “Also, the fact that fraud is usually concealed can make it very difficult to detect,” have also been excluded from ED-240. We believe that this language provides further important context regarding the auditor’s ability to detect fraud, the elimination of which could result in unrealistic expectations by financial statement users. We recommend that the Board consider retaining the language from extant ISA 240.6, which could be included in ED-240.A12, as well as the language from extant ISA 240.A23, which could be included in ED-240.A56.
- The application material and appendices include several lengthy lists of matters or examples related to fraud (e.g., ED-240.A52 and Appendices 1 through 3). We are concerned that this could have the effect of driving a checklist mentality, rather than a tailored discussion of fraud risk factors and risks of material misstatement that are specific to the company. While we appreciate the IAASB’s efforts to provide auditors with examples to assist them in applying ED-240, we suggest that positioning them outside the standard could decrease the risk that they are treated as a checklist, while also providing the IAASB with more flexibility to update or expand upon them as new fraud schemes and fraud risk factors inevitably arise.

The auditor’s responsibilities relating to non-material fraud

Similar to other revised ISAs, the IAASB has included “key concepts” in the Introduction section of the ISAs. As described in paragraph 6 of ED-240, the auditor is concerned with a material misstatement of the financial statements due to fraud. As described in the Explanatory Memorandum, the IAASB introduced a key concept in paragraph 8 of ED-240 which deals with circumstances giving rise to the fraud and the identified misstatements with the stated intention of “clarify[ing] how the auditor goes about determining whether an identified misstatement due to fraud or suspected fraud is material to the financial statements.”<sup>5</sup> Specifically, ED-240.8 describes that, “The auditor’s determination of whether fraud or suspected fraud is material to the financial statements involves the exercise of professional judgment. This includes consideration of the nature of the circumstances giving rise to the fraud or suspected fraud and the identified misstatement(s). Judgments about materiality involve both qualitative and quantitative considerations.”

It is important that the key concepts described in the *Introduction* section complement, but do not undermine, the requirements in the standard that set out obligations for auditors. We agree that the auditor’s role and responsibilities relating to fraud in an audit of financial statements involve the exercise of professional judgment and we are supportive of reinforcing the concept that, in performing procedures in relation to fraud or suspected fraud, both qualitative and quantitative considerations are relevant. We believe the IAASB’s intent with respect to paragraph 8 is to remind auditors that, as they perform procedures related to fraud or suspected fraud, in both the risk assessment (as described in ED-240.26 through .54) and audit evaluation (as described in ED-240.55 through .57) stages, it is important to incorporate qualitative and quantitative considerations. However, we are concerned that the language in paragraph 8 and the related heading, as proposed, do not clearly convey this concept, and could be misinterpreted.

Additionally, we are concerned that the proposed language in paragraph 8 may inappropriately characterize the auditor’s role, as the determination of whether fraud or suspected fraud is material is primarily responsibility of management (and therefore could be better described in paragraph 3), whereas the role of the auditor is to determine whether a fraud or suspected fraud results in a material misstatement of the financial statements and determine the implications of the misstatement in relation to other aspects of the audit.

To address these concerns (assuming the IAASB’s intent is as we have interpreted it), we recommend that the Board consider making the following revisions to paragraph 8 of ED-240 and the related heading (deletions are ~~struck through~~, additions are marked as underlined):

~~Qualitative and Quantitative Considerations Related Circumstances Giving Rise to the Fraud and the Identified Misstatements~~

8. In performing procedures in relation to ~~The auditor’s determination of whether a~~ fraud or suspected fraud in accordance with this ISA, ~~is material to the financial statements involves the~~ auditor exercises ~~of~~ professional judgment. This includes consideration of the nature of the circumstances giving rise to the fraud or suspected fraud and the identified misstatement(s). Judgments about materiality involve both qualitative and quantitative considerations. (Ref: Para. A11)

We have also considered the implications of the related application material (ED-240, paragraph A11), which describes that, “Even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on: (a) Who instigated or perpetrated the fraud – an otherwise insignificant fraud perpetrated by senior management is ordinarily considered qualitatively material irrespective of the amount involved. This may in turn give rise to concerns about the integrity of

---

<sup>5</sup> Refer to ED page 8 of 162, paragraph 18.

management responsible for the entity's system of internal control [; and] (b) Why the fraud was perpetrated – misstatements that are not material quantitatively, either individually or in the aggregate, may have been made intentionally by management to “manage” key performance indicators in order to, for example, meet market expectations, maximize compensation based on performance, or comply with the terms of debt covenants.”

To promote consistent application of ED-240, we believe it is important that the proposed standard include a description of which individuals within the company represent senior management so that the intent of 240.A11 is clear. We would expect senior management to include the principal executive and financial officers (e.g., those who may be required to sign the company's financial statement certifications, as applicable), as well as any other members of senior management who play a significant role in the company's financial reporting process.

Additionally, we have concerns with the circumstances described in proposed 240.A11 (a) and (b). With respect to ED-240.A11(a), the proposed language seems to imply that a quantitatively immaterial fraud perpetrated by someone other than senior management would be viewed as “insignificant,” which we do not necessarily believe to be the case, nor do we believe the Board intended to imply as much. With respect to ED-240.A11(b), we are concerned with the specific reference to “why the fraud was perpetrated.” In some cases, the auditor may obtain information related to a fraud or suspected fraud that informs their perspective on why the fraud *may* have been perpetrated. By contrast, there may be other situations in which the auditor is not privy to any information regarding the reasoning or motivations of the perpetrator. In most cases, it is unlikely that an auditor would be able to know definitively why a fraud was perpetrated, and we believe it is unreasonable that they should be expected to do so.

To address these concerns, we recommend that the Board consider making the following revisions to paragraph A11 of ED-240 (deletions are ~~struck through~~, additions are marked as underlined):

A11. ~~Even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on~~In assessing the materiality of fraud or suspected fraud, the auditor may consider:

(a) Who instigated or perpetrated the fraud – ~~an otherwise insignificant quantitatively immaterial fraud perpetrated by senior management~~is ordinarily considered qualitatively material irrespective of the amount involved. When fraud is perpetrated by senior management, this may in turn also give rise to concerns about the integrity of management responsible for the entity's system of internal control.

Footnote X - The term senior management includes the principal executive and financial officers (e.g., those who may be required to sign the company's financial statement certifications, as applicable), as well as any other members of senior management who play a significant role in the company's financial reporting process.

(b) The nature of circumstances giving rise to the fraud~~Why the fraud was perpetrated~~ – misstatements that are not material quantitatively, either individually or in the aggregate, may have been made intentionally by management to “manage” key performance indicators in order to, for example, meet market expectations, maximize compensation based on performance, or comply with the terms of debt covenants.

#### The auditor's responsibilities related to third-party fraud

Paragraph 92 of the Explanatory Memorandum that accompanies ED-240 states that the “IAASB did not support expanding the role 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.” (*emphasis added*) We agree with this decision.



We understand and acknowledge that extant ISA 240 defines fraud as “an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage” (*emphasis added*) and that the IAASB has not proposed changes to that definition in ED-240. Additionally, we acknowledge that ED-240.5 retains the concept from extant ISA 240.3 that two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.<sup>6</sup>

We believe that the inclusion of the concept of third-party fraud in ED-240 can serve as a good reminder for auditors that individuals outside of the company could commit a fraud that falls into one of the categories of intentional misstatements that are relevant to the auditor. However, we are concerned that ED-240, as currently drafted (including the level of emphasis placed on the topic), reads in a manner that could be viewed as expanding the role of the auditor to detect any third-party fraud, or at least to detect third-party fraud that falls outside of the categories that are relevant to the auditor.

The proposed standard does not clearly convey how the responsibility of the auditor to detect third-party fraud aligns with the more broadly defined responsibility of the auditor to detect intentional material misstatements of the financial statements resulting from fraudulent financial reporting and misappropriation of assets (as described in ED-240.5). ED-240.18(a) includes a definition of fraud that does not limit the role of the auditor to third-party fraud that meets the aforementioned criteria (intentional material misstatements of the financial statements resulting from fraudulent financial reporting and misappropriation of assets), and ED-240.A21 makes reference to the definition in paragraph 18(a).

We recommend that the Board consider updating ED-240 to include explicit language stating that third-party fraud considerations therein are related to intentional misstatements of the financial statements resulting from fraudulent financial reporting and misappropriation of assets. We also recommend that ED-240 be updated to include specific examples of third-party fraud related to each of these categories. Without such clarification, we believe that the opportunities for inconsistent interpretation and application of the requirements of the auditor related to third-party fraud are significant.

Additionally, as described in the ED, the IAASB enhanced the application material in paragraph A16 of ED-240 by explaining the auditor’s actions if third-party fraud or suspected fraud that may give rise to risks of material misstatement is identified by the auditor, including a brief example relating to third-party fraud which involved a cybersecurity breach.<sup>7</sup> In recent years, there has been a rapid increase in cyber-attacks across every industry, and we understand and acknowledge that a cybersecurity breach by a third party could meet the definition of fraud in extant ISA 240 and ED-240 and could result in a material misstatement of the financial statements. However, given the complexities and potential nuances associated with this emerging area, we are concerned that the brief example in ED-240.A16 referencing a cybersecurity breach may introduce more confusion than clarity.

We recommend that the Board consider replacing the example in paragraph A16 with a simpler example of third-party fraud that does not relate to a cybersecurity breach. To the extent the Board believes it is important to provide clarity to and/or remind auditors about how cybersecurity risk should be considered in the identification of, and responses to, risks of material misstatement to the financial statements, we recommend that the Board address the topic separately and comprehensively, potentially as part of the Board’s separate technology project.

---

<sup>6</sup> Refer to ED page 41 of 162, paragraph 5.

<sup>7</sup> Refer to ED page 26 of 162, paragraph 92 and ED page 59 of 162, paragraph A16.

*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):**

Refer to our response to Question 1 regarding the IAASB’s efforts to reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements in ED-240.

*Risk Identification and Assessment*

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)

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

**Detailed comments (if any):**

Potential implications of proposed changes that are intended to build on the foundational requirements of ISA 315 and other ISAs

The CAQ appreciates the IAASB’s efforts to correlate the requirements in ED-240 related to the identification and assessment of risks of material misstatement due to fraud with ISA 315. We understand and appreciate that, in developing the proposed changes relating to risk identification and assessment in the proposed standard, the IAASB was mindful of maintaining the balance between ISA 315 and ED-240 and that in making the changes the IAASB endeavored to present the foundational requirements with a fraud lens in ED-240 and not to duplicate nor repeat requirements from ISA 315 or other ISAs. As described in the ED, we understand that the construct of ED-240 paragraphs 26 through 40 (the repetitive use of the phrase “in applying ISA...”) is meant to signal that a requirement is intended to be applied “in addition to or alongside” performing the relevant requirements of the referenced foundational standard.<sup>8</sup> However, as written, certain of the proposed requirements in the aforementioned paragraphs are not tailored in a way that clearly demonstrates how an auditor is expected to consider them with a fraud lens or distinguish them from the requirements in ISA 315. This could result in inconsistency in behaviors, procedures, and outcomes in the implementation of ED-240, and the proposed amendments could unintentionally create undue duplicative performance and/or documentation requirements.

Specifically, we are concerned that, with respect to proposed paragraphs 26, 28, 30, and 33 of ED-240, it is not clear what the auditor would do differently or in addition to what is required by ISA 315. As currently

---

<sup>8</sup> Refer to ED page 13 of 162, paragraph 39.

proposed, these paragraphs may create the impression that two separate sets of risk assessment procedures – one related to identifying risks of material misstatements due to error and another related to identifying risks of material misstatement due to fraud – must be performed in order to meet the requirements (i.e., could result in a “bolt on” approach). Not only do we believe that this is not the intention of the Board, but we also believe that a holistic approach to risk assessment that considers risks of material misstatement due to fraud and error is most effective.

Our preference would have been for the IAASB to amend ISA 315 to enhance the emphasis on fraud so as not to create the confusion we describe in the paragraph above by duplicating requirements in ED-240. If the Board determines it is appropriate to retain the structure proposed in ED-240, we believe it is necessary for the Board to consider whether, with respect to the aforementioned requirements, the proposed expanded considerations related to fraud could be tailored to more specifically demonstrate how an auditor is expected to apply a fraud lens in these aspects of their risk assessment. To the extent the Board does not find this approach acceptable, we recommend that the Board consider issuing guidance focused on how an auditor’s risk assessment procedures are expected to be performed holistically in a manner that encompasses both risks of fraud and error.

#### Retrospective review of the outcome of previous accounting estimates

Paragraph 32(b)(ii) of extant ISA 240, which relates to audit procedures responsive to risks related to management override of controls (i.e., substantive audit procedures), requires the auditor to perform a retrospective review of management judgments and assumptions related to *significant* accounting estimates reflected in the financial statements of the prior year (*emphasis added*).<sup>9</sup> Additionally, paragraph A57 of extant ISA 540 (Revised) states that a retrospective review of management judgments and assumptions related to *significant* accounting estimates is required by ISA 240 [FN 37 excluded] (*emphasis added*).<sup>10</sup>

Proposed paragraph 28 of ED-240, which relates to the auditor’s risk assessment procedures, does not include the word “significant” in the requirements related to retrospective reviews. Additionally, as part of the proposed changes to conform ISA 540 (Revised) to the changes being made to ISA 240, the word “significant” has been removed from paragraph A57 of ISA 540 (Revised) and the reference to ISA 240 has been updated to reference paragraph 28 of that standard. We are supportive of these requirements, as we believe it is appropriate that the auditor’s risk assessment procedures would not necessarily be limited to retrospective reviews of significant accounting estimates, but rather, as described in the last sentence of ED-240.28, that the auditor would “take into account the characteristics of the accounting estimates in determining the nature and extent of that [retrospective] review [of accounting estimates].”

Proposed paragraphs 51 and 52 of ED-240, which relate to the auditor’s procedures in response to risks related to management override of controls (i.e., substantive audit procedures), discuss the requirements of the auditor to evaluate management’s accounting estimates, but do not limit such requirements to significant estimates. Specifically, ED-240.51 states that “... the auditor shall evaluate whether management’s judgments and decisions in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias that may represent a risk of material misstatement due to fraud.” As ED-240.51 and .52 relate to substantive audit procedures, we believe that it is appropriate for the requirements in these paragraphs to be limited to accounting estimates associated with a risk of material misstatement to the financial statements due to fraud. As such, we believe it is important that the word “significant” be included in ED-240.51. We are concerned that without such a clarification, there is a risk of inconsistent application and execution by auditors in this area.

---

<sup>9</sup> Refer to extant ISA 240, paragraph 32(b)(ii).

<sup>10</sup> Refer to extant ISA 450 (Revised), paragraph A57.

To address this concern, we recommend that the Board consider making the following revision to paragraph 51 of ED-240 (additions are marked as underlined):

51. In applying ISA 540 (Revised), [FN 29 excluded] the auditor shall evaluate whether management's judgments and decisions in making the significant accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias that may represent a risk of material misstatement due to fraud. (Ref: Para. A136–A138)

Presumption of risks of material misstatement due to fraud in revenue recognition

While we are supportive of the IAASB's efforts to clarify when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition, we have concerns that ED-240.41 and the related application material may create confusion and, ultimately, inconsistent interpretation and application of the standard. Specifically, we are concerned that proposed paragraphs A110 and A111 do not clearly describe how an auditor would be expected to take into account related fraud risk factors when assessing risks of material misstatement due to fraud in revenue recognition, and that the connection between the two paragraphs is not clear.

The language in proposed paragraph A110 seems to imply that it would be rare for the presumption that there are risks of material misstatement due to fraud in revenue recognition to be overcome.<sup>11</sup> However, proposed paragraph A111 states that "The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where fraud risk factors are not significant," and provides examples of revenue where fraud risk factors may not be significant. Certain of those examples are not necessarily uncommon, which would seem to imply that it would not be rare for the presumption to be overcome, which appears contradictory to proposed paragraph A110.

Additionally, both ED-240.A110 and ED-240.A111 discuss the "presence of fraud risk factors" as well as the "significance of fraud risk factors." This could be interpreted to indicate that the auditor would be expected to first determine whether fraud risk factors are present, and then, if they are, to assess whether those fraud risk factors are significant, but it is unclear whether this is the expectation or how an auditor would go about doing so. While ED-240.A111 includes "examples of revenue where fraud risk factors may not be significant," no additional context is provided to explain why the examples represent situations in which fraud risk factors are present but not significant (as opposed to fraud risk factors not being present at all), or what the drivers are that cause the fraud risk factors in these scenarios to be insignificant.

We recommend that the Board consider whether there are changes that could be made to ED-240.A110 and or ED-240.A111 to clarify or eliminate what appears to be contradictory concepts in the two paragraphs. Additionally, we recommend that the Board consider making updates to the examples in ED-240.A111 to include context that will allow the auditor to understand why and how the relevant conclusions outlined in the examples were reached based on the considerations described in ED-240.A110 and ED-240.A111.

---

<sup>11</sup> 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.

*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:** [Neither agree/disagree, but see comments below](#)

**Detailed comments (if any):**

Scalability of the fraud or suspected fraud requirements

We appreciate the IAASB’s efforts to keep the fraud or suspected fraud requirements scalable, but we have concerns that the level of scalability needed to make the standard operable in practice will not be achieved through the requirements as currently proposed. As described in the ED, for all instances of fraud or suspected fraud identified by the auditor, ED-240 requires the auditor to apply at least some of the fraud or suspected fraud requirements that are applicable in the circumstances to determine the effect on the audit engagement.<sup>12</sup>

For all instances of fraud or suspected fraud identified, the auditor is required to obtain an understanding of the matter, including performing the specific procedures outlined in ED-240.55. We understand, as explained in the ED, that the IAASB’s basis for including this requirement is that obtaining an understanding of the fraud or suspected fraud in accordance with paragraph 55 is necessary to inform the determinations required in paragraph 56.<sup>13</sup> The ED further explains the IAASB’s view that scalability has been introduced into ED-240 because, depending on the nature of the fraud or suspected fraud and the determinations made by the engagement partner in accordance with paragraph 56, some of the fraud or suspected fraud requirements [those in paragraphs 57 through 59] may not be applicable.<sup>14</sup>

We acknowledge that some level of scalability will be achieved as described in the ED, however, we are concerned that the proposed requirements are not sufficiently scalable. The requirement for the auditor to perform the procedures described in ED-240.55 for all instances of fraud or suspected fraud could be read as including matters that are easily identified as clearly inconsequential and unlikely ever to result in a material misstatement of the financial statements, as well as matters that do not relate to fraudulent financial reporting or misappropriation of assets. Further, it is unclear from the Explanatory Memorandum as to the intent of paragraph 55 and whether each element of the requirement needs to be applied for every identified fraud or suspected fraud, including those that are clearly inconsequential.

We acknowledge that, with respect to some instances of fraud or suspected fraud, performing the procedures described in paragraph 55 would be necessary in order for the auditor to obtain an understanding of the matter sufficient to enable the auditor to appropriately evaluate management’s conclusions as to whether fraud occurred and, if so, the impact on the financial statements and the audit. However, there may be many instances of fraud or (likely more commonly) suspected fraud for which the auditor will be able to appropriately reach such conclusions without performing all (or potentially any beyond inquiry) of the procedures described in paragraph 55. For example, at many large public companies, whistleblower hotlines may yield lists of hundreds or potentially even thousands of matters per year, many of which may have the potential to relate to fraudulent financial reporting or misappropriation of assets.

<sup>12</sup> Refer to ED page 17 of 162, paragraph 56.

<sup>13</sup> *Ibid.*

<sup>14</sup> Refer to ED page 17 of 162, paragraph 57.

According to a report from Navex, there were 1.86 million whistleblower reports in 2023 (across 3,784 organizations and 57 million employees). The median overall substantiation rate, meaning allegations that when investigated prove to be correct or partially correct, was 45% (i.e., majority of allegations were unsubstantiated).<sup>15</sup> Additionally, not all of these substantiated allegations would be considered fraud in accordance with ISA 240/ED-240, as not all relate to fraudulent financial reporting or misappropriation of assets.

We believe that, if not clarified, the requirements in ED-240.55 would be overly prescriptive, are not suitable for a principles-based standard, and could result in auditors expending significant amounts of time and effort performing and documenting procedures that are unnecessary to achieve the objective of assessing and responding to risks of material misstatement to the financial statements. In order for the requirements of ED-240 to be appropriately scalable, we believe it is important that the auditor is able to exercise professional judgment in determining which matters they need to understand and what procedures are necessary to perform in order to obtain a sufficient understanding of those matters. Additionally, we believe that an increased emphasis in ED-240 on the relevance of management's processes and conclusions related to instances of fraud or suspected fraud to the auditor's risk assessment and related professional judgments could further contribute to its scalability. Accordingly, we recommend that the Board consider making revisions to paragraph 55 of ED-240 to better reflect the auditor's work effort based on the nature of the fraud. That is, that the auditor may not need to perform all of the procedures in paragraph 55 to obtain an understanding of the identified fraud or suspected fraud, sufficient to conclude on next steps, based upon the significance of the identified fraud or suspected fraud (i.e., scalability based on the nature and significance of the identified fraud or suspected fraud). To further clarify this point and enhance the scalability of the standard, we suggest that the Board include additional language in paragraph 6 of ED-240 regarding the auditor's responsibility related to matters identified that are clearly inconsequential (as reflected in the suggested edits below).

We also have the following additional concerns related to the proposed requirements in paragraph 55:

- We believe that the phrase “the auditor identifies fraud or suspected fraud” may be misunderstood by users, irrespective of the key concepts described in paragraph 7. As drafted, the phrase could be interpreted to apply to those fraud matters that have been identified specifically by the auditor and would not include other ways in which the auditor becomes aware of fraud or suspected fraud. Accordingly, we recommend paragraph 55 include “or otherwise become aware of” to clarify and reinforce the scope of the performance requirements in paragraph 55.
- We have concerns regarding the requirement to make inquiries of management at least one level above those involved in the matter identified. We believe that in some cases this requirement could, in practice, be difficult to satisfy or demonstrate based on the entity's organizational structure and/or the specific facts and circumstances of the matter. We recommend that the requirement in paragraph 55(a) be revised from “with a level of management that is at least one level above those involved” to “with an appropriate level of management.”
- Because the auditor may not have enough information to make a determination about whether a control deficiency exists related to the fraud or suspected fraud, we recommend that the requirement in paragraph 55(d) be revised from “determine” to “consider”.

To address the aforementioned concerns, we recommend that the Board consider making the following revisions to paragraphs 6 and 55, which we believe are also better aligned with the IESBA code requirements related to fraud (deletions are ~~struck through~~, additions are marked as underlined):

---

<sup>15</sup> <https://www.navex.com/en-us/resources/benchmarking-reports/whistleblowing-hotline-incident-management/>

6. Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud. Although the auditor may identify or suspect the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations of whether fraud has actually occurred. Although matters may be identified during an audit that may constitute fraud in a broad legal sense, the auditor is not required to respond to matters that clearly could not result in material misstatement of the financial statements.

55. If the auditor identifies or otherwise becomes aware of fraud or suspected fraud, the auditor shall obtain an understanding of the nature and circumstances 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 nature and circumstances of the matter and how management has responded to the matter with an appropriate 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 results of the procedures in paragraph (a) indicate the matter is other than clearly inconsequential, the auditor shall:
  - (i) ~~(b)~~ evaluate how management has responded to the matter, including the nature and status of the investigations and remediation measures management has taken or plans to take; and 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~~
    - (ii) ~~(d)~~ consider ~~Determine~~ whether control deficiencies may exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud.

Additionally, we are concerned with the scalability of proposed paragraph 56 of ED-240. ED-240.56(a)(i) and (ii) specifically require the engagement partner “to determine whether to” perform certain risk assessment procedures and design and perform further audit procedures. In some situations, this requirement could pose scalability challenges due to the volume of relevant matters (e.g., in very large audits), and/or language and custom related barriers (e.g., in group audits). While we believe it is appropriate for the engagement partner to take overall responsibility for the audit, including the judgments made and procedures performed by the engagement team in complying with ISA 240, we believe this can be effectively achieved in a more scalable way by requiring the auditor to perform the procedures described in ED-240.56 and adding a broad requirement regarding the engagement partner’s ultimate responsibilities, similar to what is included in ISA 600 (Revised) and ISA 220 (Revised).

Similarly, we are concerned that the requirement in ED-240.56(a)(iii) for the engagement partner to determine whether there are additional responsibilities under, law, regulation, or relevant ethical requirements about the entity’s non-compliance with laws or regulations in accordance with ISA 250 may not be operable in many group audit situations. It is important for the standard to permit the engagement partner to use information and resources from the firm or other members of the engagement team when making such determinations.

To address these concerns, we recommend that the Board consider making the following revisions to paragraph 56 of ED-240 (deletions are ~~struck through~~, additions are marked as underlined):

56. Based on the understanding obtained in accordance with paragraph 55, the ~~engagement partner~~ auditor shall: (Ref: Para. A152–A153)

- (a) Determine whether:

- (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019);
  - (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ISA 330; and
  - (iii) There are additional responsibilities under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised).
- (b) If applicable, consider the impact on other engagements, including audit engagements from prior years.

Additionally, we recommend that the Board consider adding a new paragraph into ED-240 as follows:

X. The engagement partner may obtain information from the firm or other members of the engagement team, but remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.

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

**Detailed comments (if any):**

Increasing transparency in the auditor's report

We are supportive of the IAASB's efforts to increase transparency in the auditor's report regarding the auditor's fraud-related responsibilities and procedures. However, we have concerns regarding the proposed requirements.

Broadly, we believe that ISA 701 is sufficient without the addition of the proposed incremental requirements in ED-240 related to Key Audit Matters. When significant fraud-related matters meet the criteria set out in ISA 701, such matters would be expected to be reported as KAMs today. As a result, the inclusion of KAM guidance in ED-240 could be viewed as calling into question the current guidance in ISA 701 and is unnecessary. Our general concerns are as follows:

- ED-240.64 and conforming amendments to ISA 701 require that if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters related to fraud to communicate, they shall include a statement to this effect in the Key Audit Matters (KAMs) section of the auditor's report.<sup>16</sup> We are concerned that the inclusion of definitive negative assurance statements such as this in the auditor's report has the potential to result in confusion for financial statement users. Such statements may inadvertently result in users of the auditor's report making inappropriate assumptions or conclusions about what that statement means (e.g., when no fraud-related KAM is identified, a reader could reach

---

<sup>16</sup> Refer to ED page 52 of 162, paragraph 64.



inappropriate conclusions such as that no fraud risk factors and/or risks of material misstatement due to fraud were identified, that no fraud was identified/had occurred, and/or that no fraud-related procedures were deemed necessary or performed) and could generally exacerbate the existing expectation gap. Additionally, we believe that such language is unnecessary, as the auditor's conclusion that no fraud related KAMs were identified would be clearly apparent to a user based on the description of the KAMs that are communicated.

- ED-240.63 and conforming amendments to ISA 701 require that the auditor shall describe each key audit matter, using an appropriate subheading that clearly describes that the matter relates to fraud, in a separate section of the auditor's report under the heading "Key Audit Matters Including Matters Related to Fraud."<sup>17</sup> We do not see the benefit of requiring a specific heading in the audit report and believe that reporting KAMs, whether related to error, fraud, or both, under the heading "Key Audit Matters" remains appropriate. We are concerned that requiring a more specific heading, as proposed, gives a level of prominence to matters related to fraud that may or may not be appropriate given everything else that may be involved in a particular audit.

We also have the following concerns regarding the specific requirements in ED-240 related to KAMs:

- While not explicitly stated, the language in paragraphs 61 and 62 of ED-240 is tantamount to a requirement to include at least one fraud-related KAM. We believe that expecting all audit reports, except in rare circumstances, to include at least one fraud-related KAM will inevitably result in boilerplate language that is not meaningful to a reader of an audit report and will not result in the transparency the IAASB is aiming to achieve. This expectation also removes the professional judgment of auditors to critically assess what should be a KAM.
- Proposed paragraph 62 of ED-240 requires an auditor to determine which of the matters determined in accordance with proposed paragraph 61 were of most significance and, therefore, are KAMs. We interpret this to mean that, based on proposed paragraphs 61(b) and (c), an auditor would be expected to report fraud, or even suspected fraud, and internal control deficiencies in their audit report. We believe such a requirement is not appropriate, as it should not be incumbent on auditors to report information about the company that company management is not required to share publicly.

We recommend that the Board consider striking proposed paragraphs 61 through 64 of ED-240 and the related application material in ED-240.A162 through .A179.

Additionally, we recommend that the Board consider making the following changes to proposed ISA 701 (Revised) (deletions are ~~struck through~~, additions are marked as underlined):

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "~~Key Audit Matters Including Matters Related to Fraud,~~"<sup>59</sup> unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:

(a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33)

---

<sup>17</sup> Refer to ED page 52 of 162, paragraph 63 and page 151 of 162, paragraph 11.

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters ~~Including Matters Related to Fraud.~~" (Ref: Para. A57–A59)

~~A8A. ISA 240 (Revised)<sup>60</sup> includes requirements for the auditor to determine which matters related to fraud, from those communicated with those charged with governance, are key audit matters. The requirements and guidance in ISA 240 (Revised) refer to, or expand on, the application of this ISA.~~

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

A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

**Key Audit Matters ~~Including Matters Related to Fraud~~**

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

~~A58A. ISA 240 (Revised) 66 includes guidance that illustrates the presentation in the auditor's report if the auditor has determined there are key audit matters to communicate but these key audit matters do not relate to fraud.~~

We understand that the IAASB believes it is important to clarify and highlight how the auditor's fraud-related procedures should be considered in their determination and communication of KAMs and we are supportive of this objective. To this end, we are supportive of the inclusion of certain proposed additions to ISA 700 and ISA 701, including: the addition of the phrase "which includes matters related to fraud" or "including matters related to fraud" in various headings and paragraphs throughout proposed ISA 700 (Revised) and 701 (Revised) (other than related to the heading of the auditor's report, as discussed above); the language in proposed AS 701.A18A (subject to the suggested edits described above); and the language in proposed ISA 701.A21. We believe that the inclusion of such language in ISA 700 (Revised) and ISA 701 (Revised) will serve as an effective reminder for auditors with respect to how their fraud-related procedures should be considered in their determination and communication of KAMs, such that the inclusion of language and requirements related to KAMs in ED-240 is unnecessary.

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):**

While the CAQ appreciates the IAASB’s endeavors to improve transparency, we question whether the requirement to communicate KAMs, including those related to fraud, would uniformly benefit all entities categorized as PIEs (particularly non-listed entities considered to be PIEs). The value derived from KAMs may differ significantly based on an entity’s specific circumstances of it being treated as a PIE. For example, KAM reporting may not be particularly useful for owner-managed businesses, where stakeholders already have regular interactions with auditors. The potential benefits of KAMs for not-for-profit entities may not justify the associated costs, in particular taking into account the significant investment to methodologies and tools that firms that do not communicate KAMs today would be required to make.

*Considering a Separate Stand-back Requirement in ED-240*

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

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

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

**Detailed comments (if any):**

Consistency in the consideration of separate stand-back requirements

As described in the ED, the IAASB concluded that an additional stand-back requirement in ED-240 is not needed considering that existing stand-back requirements and guidance in other ISAs (i.e., ISA 220, ISA 315, ISA 330, and ISA 540) also apply to audit evidence obtained from audit procedures performed in accordance with ED-240.<sup>18</sup> We are supportive of this decision, however, we do believe that it could raise questions and cause confusion among auditors regarding why a stand-back requirement is included in certain ISAs, but not others. We appreciate the Board’s recognition of the concerns raised by stakeholders about the proliferation of stand-back requirements in the ISAs, and we encourage the Board to continue to pursue the separate project they have undertaken to consider the stand-back requirements in the ISAs more holistically.<sup>19</sup>

<sup>18</sup> Refer to ED page 31-31 of 162, paragraphs 108 and 109.

<sup>19</sup> *Ibid.*

*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:** [Neither agree/disagree, but see comments below](#)

**Detailed comments (if any):**

The CAQ appreciates the Board's efforts to address and illustrate scalability within ED-240. We recognize the challenges of developing a global approach that is principles-based, capable of being implemented in a scalable manner, and that is compatible with a variety of different jurisdictional regulatory systems around the world.

Scalability of the fraud or suspected fraud requirements

Refer to our response to Question 4 regarding our concerns related to the scalability of the proposed requirements around fraud and suspected fraud.

Considerations relating to the use of forensic specialists

As described in the ED, determining the need for specialized skills, as well as the nature, timing and extent of direction, supervision and review in accordance with paragraphs 22 through 24 of ED-240 would allow the application of judgment by the engagement partner in light of the varying circumstances of an audit.<sup>20</sup> We recognize and appreciate that ED-240.A33 emphasizes that the engagement partner's determination of whether additional engagement level resources are required to be assigned to the engagement is a matter of professional judgment and is influenced by the nature and circumstances of the audit engagement. Additionally, we appreciate that the Board included specific examples in ED-240.A34 with the intention of illustrating the scalability of the proposed standard. However, we are concerned that, while well-intentioned, the inclusion of a separate requirement in ED-240 could have the unintended effect of implying an expectation that the engagement of forensic, IT, data and/or other specialist(s) is expected in all or most audits. We do not believe that such widespread use of such specialists in financial statement audits is necessary, nor do we believe this is the Board's intention.

In order to minimize the potential for such an unintended effect, we recommend that the Board consider eliminating proposed paragraph 22 from ED-240, maintaining the overall requirement for the engagement partner to determine the competence and capabilities of the engagement team in ISA 220 (Revised). We recommend that the application material within proposed ED-240.A33 through .A36 be added to the existing application material applicable to ISA 220 (Revised), paragraph 26. We believe this approach will more clearly demonstrate that the engagement partner's determination regarding the competence and capabilities of the engagement team is expected to be a holistic determination that includes consideration of specialized skills or knowledge to perform procedures related to fraud and will minimize the potential implication that a fraud specialist would be required or expected on every audit.

---

<sup>20</sup> Refer to ED page 32 of 162, paragraph 113(e)(i).

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>21</sup> ISA 220 (Revised),<sup>22</sup> ISA 315 (Revised 2019), ISA 330,<sup>23</sup> ISA 500,<sup>24</sup> ISA 520,<sup>25</sup> ISA 540 (Revised)<sup>26</sup> and ISA 701<sup>27</sup>) to promote the application of the ISAs in an integrated manner?

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

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

**Detailed comments (if any):**

Refer to our responses to Questions 3 (risk assessment), 5 (KAMs) and 7 (stand-back requirements) regarding our concerns related to the linkages between ED-240 and other ISAs.

*Other Matters*

10. Are there any other matters you would like to raise in relation to ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

**Overall response:** [No response](#)

**Detailed comments (if any):**

*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):**

---

<sup>21</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>22</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>23</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>24</sup> ISA 500, *Audit Evidence*

<sup>25</sup> ISA 520, *Analytical Procedures*

<sup>26</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>27</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

*Effective Date*

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

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

*(See ED, paragraph 16)*

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

**Detailed comments (if any):**

We believe that the effective date suggested by the IAASB would provide a reasonable timeframe for auditors to implement and adopt ED-240 itself. However, we anticipate that amended standards in the areas of fraud and noncompliance with laws and regulations will likely be adopted by other standard setters in the near future and could have effective dates within a similar or slightly lagging timeframe. We believe that the implementation and adoption by audit firms of multiple auditing standards addressing the same/related topic(s) would be most successful if it can occur at the same time, and we encourage the IAASB to take such potential events into consideration as they finalize the effective date of ED-240.

-----

The CAQ appreciates the opportunity to comment on the Exposure Draft and we look forward to future engagement. As the IAASB gathers feedback from other interested parties, we would be pleased to discuss our comments or answer questions regarding the views expressed in this letter. Please address questions to Emily Lucas ([elucas@thecaq.org](mailto:elucas@thecaq.org)) or Lucy Wang ([lwang@thecaq.org](mailto:lwang@thecaq.org)).