

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.



05 June 2024

To: IAASB
Via: ED-ISA240 webpage

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (Revised) , THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

PART A: Respondent Details and Demographic information

Your organization’s name (or your name if you are making a submission in your personal capacity)	Corporate Reporting User’s Forum (CRUF)
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)	
E-mail address(es) of contact(s)	Contact CRUF here
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.	Global
	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.	Investors and Analysts (Preparer or users of financial information)
	If “Other,” please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	Refer “About the Corporate Reporting Users’ Forum (CRUF)” at the end of this letter



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):

We welcome the IAASB's publication of ED-240. For users to have confidence in financial statements, it is essential that companies have systems in place to prevent fraud and processes in place to properly detect fraud when it does occur. With the recent focus on fraud in corporate bankruptcies and scandals, we support the IAASB's decision to strengthen its response to fraud by undertaking a project to revise the current IAS 240. Our comments, including this question, are set forth below.

We believe ED-240 clearly sets out the auditor's responsibilities regarding fraud in audit of financial statements; while distinguishing from the inherent limitations of an audit, it articulates that these inherent limitations do not mitigate the auditor's responsibilities.

ED-240 also states the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance (TCWG) of the entity. At the same time, the auditor's responsibilities are equally emphasized, by referring to it before those of the management and the TCWG

1 6 .

We believe the auditor's responsibilities clearly include confirming the financial statements are free from fraud which may lead to material misstatement. Paragraph 2(a) states that "the auditor's responsibilities relating to fraud when conducting an audit in accordance with this ISA, and other relevant ISAs, are to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud."

It is also clear that the auditor should communicate and report about matters related to fraud when he or she addresses the fraud or the suspected fraud as stated in Paragraph 2(b)

We also highly support Paragraph 6, which states that the auditor does not make legal determinations of whether fraud has actually occurred, because it limits the scope of the auditor's responsibilities. Meanwhile, we think ED-240 should articulate that the auditor is not responsible for preventing fraud nor detecting all cases of illegal conduct in accordance with the requirements of ISA250.



We also support Paragraph A11, which sets out “materiality” to include qualitative materiality. It is possible that frauds listed in that paragraph may become quantitatively material in the future.

Meanwhile, we think that the following definition of fraud in Paragraph 18 is too broad; Fraud - 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.

ED-240 refers to the relationship between fraud and illegal conducts in Paragraph 14. Paragraphs A18 - A20 also state that auditors' responsibilities may cover corruption, bribery and money laundering as well as fraud. Paragraph A21 states fraud as defined in Paragraph 18(a) can include an intentional act by a third party. We understand all these paragraphs intend to clarify the relationship between fraud and these activities, but we are not fully convinced that they are very successful.

For example, we believe that some additional rationale may be needed to explain why ED-240 deals with corruption, bribery and money laundering in particular among others. If it is to prepare the possible legislation against them and the possible statutory disclosure of non-financial information and assurance in the OECD and other jurisdictions, we believe such background should be clearly explained in ED-240. We also believe the definition of the auditor's responsibility in ISA250 should be amended as necessary, in accordance with the revision of ISA240.

Note that one member of the CRUF believes that corruption meets the definition of fraud in Section 18. Incidentally, this member believes that corruption should be included in ISA 240 for the following reasons, for example,

“Investors are deceived by corruption: the reported revenues, or costs, or margins were not generated due the strength of the product offering, but through giving (or receiving) unjust or illegal advantages to key decision makers, while taking on board unreported financial and reputational risks of detection.”

“The financial liabilities and the reputational risks of corruption can be significant; so significant that they can endanger the continuity of a business. For long-term institutional investors, there is no financial gain from corruption, even if it remains unnoticed. The destructive nature of corruption also negatively impacts many other companies in which institutional investors invest.”

He believes that incidents and the actions of the management related to them should be reported diligently in the company's reports, and insight should be provided into the nature and quantity of suspicions and indications of corruption. Such information can be an essential indication that the management is (not) sufficiently alert to ensure that the anti-corruption policy is effective.”

Thus, there is a possibility that users of financial statements may request an expansion of the scope of fraud that the accounting auditor should address. Users' demands may sometimes exceed the scope and capability of the auditor, and resources and time that should be devoted to audit engagement may be excessively allocated to fraud, and the auditor's efforts to perform the audit engagement may be neglected.

In summary, the definition of fraud in Paragraph 18 needs to be clarified to narrow the range of interpretation. As aforementioned, views of the CRUF participants are diverted as to whether the auditors



are expected to expand or limit their audit scope to identify corruption in the context of assurance of non-existence of material misstatements.

We expect the IAASB to more clearly describe the scope of fraud that the auditor should address, including the background, in the revised ISA 240 or in the explanatory statement.

Professional Skepticism

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

(See EM, Section 1-D, paragraphs 19–28)

(See ED, paragraphs 12–13 and 19–21)

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

Detailed comments (if any):

We agree that ED-240 generally enhances the auditor’s exercise of professional skepticism. That said, we are not fully convinced by the IAASB’s conclusion to remove the following sentence; “the auditor’s preconditions, based on past experience, about the honesty and integrity of management and TCWG may serve to undermine the exercise of professional skepticism”. We are not sure if this reference should be in fact removed or not. Paragraph 23 of the EM provides the reason for the deletion, but we do not understand why retaining this statement “may serve to undermine the exercise of professional skepticism”. A detailed explanation is needed as to why the exercise of professional skepticism is to be undermined.

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)¹ and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?

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

(See ED, paragraphs 26–42)

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

Detailed comments (if any):

We agree that ED-240 is consistent with ISA250.

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



We strongly agree with paragraph 29 requires engagement team to discuss to exchange ideas about the entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance. We believe that the entity's culture against fraud should play a crucial role and work more effectively than setting meticulous rules to prevent fraud in the entity. In that regard, the management and the TCWG should be responsible to promote such culture to permeate throughout the entity.

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):

We agree that the Paragraph 55 of ED-240 clarifies the auditor's response to address the fraud or suspected fraud when they are identified. We expect the auditor's actions required in the Paragraph 55 to work effectively, including:

(a)in Paragraph 55: to 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;

(d)in Paragraph 55:to 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. We also support Paragraph 25 to require the auditor to communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement.

That said, these responses may not work in practice as expected, if the auditee entity does not understand that the auditor's response to fraud or suspected fraud is included within the scope of the audit exercise in the contract, and recognize they are paying fees for that service. We encourage the auditor to let the auditees understand it in advance. We also encourage the IAASB or the IFAC to ask the supervising authority to educate them, while it may be beyond the scope of the ISAs.

We would like to confirm that the identified fraud or suspected fraud in this context means those identified in the process of audit, and that ED-240 is not intended to require the auditor to conduct proactive investigation to detect fraud. As we answered to Q1, ED-240 it may be better to include the paragraph clarifying that the auditor is not responsible for the prevention of fraud and not expected to detect all cases of illegal conduct .



We are concerned that some financial statement users still appear to expect the auditor to conduct inquiries on fraud by entities as if they were a prosecutor. There may also be some auditees, or preparers, who have excessive expectations on auditor's inquiries on fraud. We believe the ED-240 should state the auditor's role and responsibilities more clearly to fill the gap between the auditor's actual jobs and responsibilities and expectations held by stakeholders including users and preparers of financial statements.

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):

We agree that it is relevant and useful to provide the financial statement users with information about the fraud and the auditor's response to address them, including its process.

That said, the auditor's report is not the report on the entity's fraud but the one in which the auditor expresses his or her opinion if the financial statements are prepared fairly or not. In this regard, we appreciate the ED-240's proposal that the risk of fraud be mentioned in KAM (Key Audit Matters). We believe it is appropriate to refer to the risk of fraud in KAM, which is in the framework of audit of financial statements to assure if they are prepared in accordance with the GAAP. By doing so, we believe the meaning of fraud is clarified in the context of audit.

Referring to fraud in KAM does not mean at all that there is fraud or suspected fraud by the entity. The IAASB should clarify that, to let the financial statement users and auditees to fully understand it. We understand Paragraph A170 of ED-240 implies that it is usually expected there should be at least one KAM or more regarding fraud. If the IAASB wants to maintain A170, we believe thorough education on KAMs on fraud is essential to let stakeholders fully understand the meaning. Otherwise, we are concerned that the entity's opposition against reference on fraud in KAMs would be even stronger than the one experienced when KAMs were first introduced.



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

Detailed comments (if any):

We believe the same level of transparency in the auditor's report about the matters related to fraud should be applied in case of entities with various stakeholders including shareholders and creditors. That said, KAM may not necessarily be required to be included in the auditor's report for PIEs other than listed entities. We hope that consistent application of transparency in the auditor's report about matters on fraud should be achieved through the revisions of relevant ISAs.

Considering a Separate Stand-back Requirement in ED-240

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

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

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

Detailed comments (if any):

We do not think financial statement users fully understand the differences between the effectiveness of a separate stand-back requirement in ED-240 and that of applying stand-back requirements included in each ISA. The IAASB says that Paragraph 21 of ED-240 covers it, but we are not sure if that paragraph in fact implies the application of stand-back requirement throughout the audit. We do not think there is any problem in including a separate stand-back requirement in ED-240. We think it should be included in ED-240, just in case other ISAs' stand-back requirements simply do not work. Only after the IAASB has addressed how stand-back requirements are considered across all standards, and it will be evident that the stand-back requirement is applicable in the context of 240 Fraud, it becomes opportune to remove references to the stand-back requirement in this and other individual standards.

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: No response

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

Detailed comments (if any):

We are concerned that it is not easy for financial statement users to understand the interplay between how ED-240 suppose the auditor's responsibilities on fraud throughout the audit process with the other responsibilities, including communication with management and the TCWG. Moreover, we do not think the financial statement users fully understand the relationship between fraud in ED-240, illegal conduct in ISA250 and NOCLAR in IESBA's Ethical Standards. We encourage the IAASB to develop educational material with the IESBA to explain these matters for those who are not very familiar with ISAs and Ethical Standards.

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):

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):

We do not have any particular comment on the effective date.

But one member suggests that the IAASB instead commits to an effective date for the period ending 31st of December 2027, because there might be a slight delay of for example two or three months in the final pronouncement and committing to an effective date 18 months after approval of the final pronouncement, might risk the need to shift the effective date by a complete year.

We encourage the IAASB to carefully schedule the post implementation review of ISA240 (revised 2024), by considering circumstances of those jurisdictions which would apply it later than the effective date of the revised standard.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held in the CRUF ESG subgroup and also CRUF globally and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Yours sincerely,

(Signatures)

Kazuhiro Yoshii

Goro Kumagai

Kei Tsuchiya

Keiko Mizuguchi

Koei Otaki

Sue Milton