

## 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)	Office of the Auditor General of Canada
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	N/A
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Heather Miller, Assistant Auditor General
E-mail address(es) of contact(s)	Heather.Miller@oag-bvg.gc.ca
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="#">Public sector 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:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

### *Professional Skepticism*

2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?  
  
(See EM, Section 1-D, paragraphs 19–28)  
  
(See ED, paragraphs 12–13 and 19–21)

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

**Detailed comments (if any):**

### *Risk Identification and Assessment*

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>1</sup> and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?  
  
(See EM, Section 1-F, paragraphs 36–46)  
  
(See ED, paragraphs 26–42)

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

**Detailed comments (if any):**

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

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

**Detailed comments (if any):**

*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):**

We disagree with the additional communication requirement under ED-240 since ISA 701 already includes requirements for communicating KAMs. We believe those requirements are sufficient for transparency in the auditor's report about fraud related matters. Moreover, requirements on the communication of fraud appear confusing as there appears to be some contradiction between the requirement in paragraph 64 and the application material in A176.

We consider the ISAs (UK) to be a relevant source of comparison for ED-240 as ISA (UK) 240 was published in May 2022 and the IAASB has considered ISA (UK) 240 when drafting ED-240 (Revised). Based on this, we believe it is appropriate to review the ISA (UK) in responding to this Exposure Draft.

We prefer that the extent of fraud-related work be explained in more detail, as noted in ISA (UK) 700, requirement 29-1. We believe this would bring more transparency to the fraud-related work performed by the auditor.

ISA (UK) 700, requirement 29-1 – Irregularities including Fraud notes: *The auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud.* This requirement supports transparency and provides readers of the financial statements, information as to the extent of the work performed. This may result in increased clarity about the auditor's responsibilities related to fraud.

We highlighted above the confusion in ED-240 paragraph A176 which notes: *it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter related to fraud.* We prefer the general wording in ISA (UK) 701. A59, where the paragraph did not include the inclusion of fraud: *Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report.*

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):**

In our view, transparency in the auditor's report about matters related to fraud introduced in ED-240 should be applicable to the same type of entities as those in the foundational standard for communicating key audit matters in the auditor's report (ISA 701). Having KAMs not related to fraud apply to audits of PIE (assuming approval IAASB's Listed Entity and PIE – Track 2 Project) and then KAMs related to fraud apply only to listed entities (or publicly traded entities) increases complexities and creates a disconnect with the foundational standard. We believe the ISAs should achieve the greatest consistency possible to maintain their interoperability/linkages.

*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):**

We agree with the IAASB's decision to not include a stand-back requirement in ED-240. There is already an existing stand-back requirements in ISA 330. Adding a new requirement to ISA 240 would be repetitive.

*Scalability*

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

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

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

**Detailed comments (if any):**

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>2</sup> ISA 220 (Revised),<sup>3</sup> ISA 315 (Revised 2019), ISA 330,<sup>4</sup> ISA 500,<sup>5</sup> ISA 520,<sup>6</sup> ISA 540 (Revised)<sup>7</sup> and ISA 701<sup>8</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):**

To enhance the integration of ISAs, we suggest that a link to ISA 580, *Written Representations* be included under paragraph 65 - Written Representations, and a link to ISA 260 be included under paragraphs 66 and 67 - Communications with Management and Those Charged with Governance as these requirements are directly linked.

Appendix 5 - *Other ISAs Addressing Specific Topics that Reference Fraud or Suspected Fraud* could also include ISA 260 and 265.

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

**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):**

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<sup>2</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>3</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>5</sup> ISA 500, *Audit Evidence*

<sup>6</sup> ISA 520, *Analytical Procedures*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>8</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):**

Considering both ED-240 and ED-570 propose changes to the auditor’s report, with the common objective to enhance its transparency, we believe it is appropriate to align the effective dates of these standards and absorb the impact to the auditor’s report once. We believe enhancing transparency in the auditor’s report once instead of piecemeal will reduce complexities for the users but also for auditors. We believe the implementation period is reasonable drawing from past implementation periods of standards that have undergone substantial revisions such as ISA 315.

We consider the proposed effective date of financial reporting periods beginning at least 18 months after the approval of the final ISA appropriately reflects the significance of revisions being proposed.