

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)	Pennsylvania Institute of Certified Public Accountants – Accounting and Auditing Steering Committee
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Allison M. Henry
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	ahenry@picpa.org
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.	North America
	If “Other,” please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Member body and other professional organization
	If “Other,” please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	The PICPA is a professional CPA association in Pennsylvania of about 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The response is submitted by the Accounting and Auditing Steering Committee, which is composed of practitioners from both regional and small public accounting firms and members serving in financial reporting positions. The committee’s general comments and comments to selected questions included in the due process document are included below.

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: [Disagree, with comments below](#)

Detailed comments (if any):

The committee supports additional clarification of the auditor's requirements when an identified or potential misstatement due to fraud is quantitatively material, not quantitative material but qualitatively material, or neither quantitatively or qualitatively material.

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):

The committee supports the ability of auditors to be able to rely on the authenticity of client documents unless something comes to their attention. The committee supports retaining the following sentence: "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." Furthermore, the change of the terminology to "if conditions identified" seems to suggest an affirmative requirement to "identify." We request that the Board revise the terminology in the multiple instances in which the language reads "identify" to read "if conditions come to the auditor's attention" (e.g., paragraph 20, A26, A28).

Risk Identification and Assessment

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

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

(See ED, paragraphs 26–42)

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

Detailed comments (if any):

Fraud or Suspected Fraud

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

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

(See ED, paragraphs 55–59 and 66–69)

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

Detailed comments (if any):

The scope of the work outlined in paragraphs 55 through 59 is unclear relative to materiality considerations. Are these procedures required to be performed if the fraud is not material or inconsequential?

Note that 55 (b) and (c) start with “if,” which does not seem to fit based on the construct of the sentence. We request that the wording be adjusted for these two requirements.

The committee noted that the requirement under paragraph 55 (b) refers to an entity’s “process to investigate.” This terminology is somewhat unclear. The requirements for addressing noncompliance with laws and regulations outlined in the IESBA Code of Professional Conduct discuss the communication requirements and evaluation of the appropriateness of the response of management or those charged with governance, but do not refer to a “process.” Is it intended that there are no follow-up requirements if management does not have a “process”? What does this process entail? We request that the phrasing of this requirement be revised to be consistent with the language in the IESBA Code or to clarify what the expectations are and refer more generically to how management will address the potential fraud.

Unmodified opinion in application guidance – We noted that paragraph A153 could be misread to mean that the auditor may issue an unmodified opinion if an extension of time to file is not possible under applicable law or regulation. The committee recommends clarification to note that if the auditor is unable to conclude whether the financial statements are materially misstated as a result of fraud, the auditor may have a limitation on the scope of the audit and should determine the implications for the auditor’s opinion.

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

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):

The committee is concerned with increasing the number of specific items to be reported under the KAMs, unless those items truly represent key aspects of the audit because reporting more detailed items could overshadow the value of other KAMs presented in the report. Therefore, the committee believes that any fraud-related KAMS should be evaluated in light of the overarching guidance for KAMs, not separately in the ED-240, because any incremental reporting requirement could be overlooked if it is not evaluated in the aggregate with other reporting requirements.

Separately, the committee does not support the requirement to communicate “that there are no key audit matters related to fraud to communicate,” as that would potentially mislead the financial statement users to believe that the auditor is providing more assurance than is required under the standards.

Communicating confidential client information is prohibited by the IESBA Code of Professional Conduct as well as state statutes in the United States. These requirements would further strain the auditor/client relationship and incentivize management to withhold information from the auditor.

The committee does not believe that the client-specific risks of material misstatement due to fraud should be communicated in the auditor's report as noted in paragraph 61 (a) due to client confidentiality concerns.

The committee supports the requirement for the auditor to refer to any disclosures related to the identification of fraud or suspected fraud made by management. However, the committee does not support the requirement to disclose the identification of fraud or suspected fraud in the auditor's report as proposed in paragraph 61 (b) due to client confidentiality concerns.

The committee does not support the requirement to communicate the identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud as indicated in paragraph 61 (c). This would result in the auditor communicating confidential client information.

6. In your view, should transparency in the auditor's report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?

(See EM, Section 1-H, paragraphs 76–77)

(See ED, paragraphs 61–64)

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

Detailed comments (if any):

The committee does not support the proposed communication requirements in the auditor's report for other entities unless management or those charged with governance specifically engages the auditor to provide any additional KAMs related to fraud.

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):

The committee has mixed views regarding including/excluding a separate stand-back requirement in ED-240. Given the significance of fraud, there is support for including a separate stand-back requirement in ED-240. However, given that this is ultimately integrated with risk assessment, a separate requirement could be seen as superfluous. Regardless of the final conclusions, we support further practice materials to help practitioners to perform the stand-back requirement effectively rather than simply responding to an additional question on a third-party practice aid.

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: [Disagree, with comments below](#)

Detailed comments (if any):

As noted in our response to question 4, the committee has concerns about the scalability of the requirements in paragraph 55 when an identified fraud is not material or is inconsequential.

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: [Agree, with comments below](#)

Detailed comments (if any):

The committee agrees with the linkage of ED-240 and other standards. At the same time, there are overlapping requirements in ED-240 and ISA 315, *Risk Assessment*, that may lead a practitioner to believe that the requirements are incremental. It could be helpful to practitioners' implementation that the incremental requirements be highlighted in a way that emphasizes which fraud risk procedures should be integrated into the auditor's overall risk assessment procedures.

Other Matters

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

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

Detailed comments (if any):

The committee would like to highlight the importance of an organization's whistleblower hotline and related controls and suggests that the IAASB enhance ED-240 to include additional consideration of the whistleblower hotline and related controls as well as make inquiries regarding any tips communicated through the hotline and how the communications were handled by management or those charged with governance.

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](#)

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*

Detailed comments (if any):

NA

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):

If changes are made to the key audit matters as proposed, the committee believes that additional time will be needed to educate clients and establish a communication mechanism for clients to communicate fraud risks, internal control deficiencies, etc. so that the auditor will not be divulging confidential information in the auditor's report.