

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)	CPA Ontario Small and Medium Practices Advisory Committee
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Jennifer Chowhan, Igor Kostiuoutchenko, Lynn Eidt, Celia Meikle, on behalf of the Small and Medium Practices Advisory Committee
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	smpac@cpaontario.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.	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).	

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):

ED-240 addresses the auditor's responsibilities regarding fraud detection in financial statement audits comprehensively. In terms of non-material fraud and third-party fraud, it extends these responsibilities by clarifying and enhancing the existing guidelines.

ED-240 emphasizes the auditor's duty to consider not only material but also non-material fraud. The standard highlights that misstatements that might not be quantitatively material could still be qualitatively significant, particularly if perpetrated intentionally by management. This is a crucial aspect, as it acknowledges the potential impact of smaller-scale frauds that could signal broader issues within the organization, thus requiring auditor attention irrespective of the quantitative materiality.

The revised standard clearly sets out the auditor's responsibilities concerning third-party fraud. This includes a requirement for engagement teams to discuss how assets might be misappropriated by external parties. Additionally, there is an expectation for auditors to consider how the entity's control environment might be susceptible to third-party fraud and to reflect this in their risk assessments and subsequent audit procedures.

ED-240 is designed to ensure that auditors are sufficiently equipped and obligated to identify and assess risks from all types of fraud, including those that might previously have been deemed less critical due to their size or source. This approach is intended to enhance the overall robustness of audits and the reliability of financial reporting, particularly in environments where smaller-scale or external frauds could have been overlooked.

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):

ED-240 strongly reinforces the exercise of professional skepticism concerning matters related to fraud during an audit of financial statements. This emphasis is evident in several key changes and enhancements proposed in the standard.

ED-240 underlines the necessity for auditors to maintain an elevated level of professional skepticism throughout the audit process. It explicitly addresses the challenges auditors face when assessing fraud risks and the frequent need to question evidence or reassess the reliability of information received from the management.

The standard provides detailed guidance on how auditors should apply professional skepticism specifically in relation to fraud, including (i) auditors are urged to remain alert to conditions that might indicate possible misstatements due to fraud, which includes considering the sufficiency and appropriateness of audit evidence, especially when findings contradict representations from management, and (ii) the application of professional skepticism in assessing the risks of management override of controls—a significant area of concern for fraud in financial statements.

These sections in ED-240 provide clear directives that enhance the requirements for auditors to actively engage in critical assessment and reconsideration of all available evidence, ensuring that skepticism is applied consistently and thoroughly, particularly in areas susceptible to fraud. The draft standard's focus on skepticism is aimed at improving the detection and consideration of fraud in audits, fostering a more diligent and questioning audit approach to enhance the reliability of financial statements.

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):

Yes, ED-240 builds on the foundational requirements of ISA 315 (Revised 2019) and other International Standards on Auditing (ISAs) to support a more robust risk identification and assessment concerning fraud in an audit of financial statements. This integration and enhancement are outlined in both the Explanatory Memorandum (EM) and the Exposure Draft (ED) text, focusing on ensuring that the standards effectively address the evolving complexities of fraud risk in financial audits.

ED-240 is designed to complement and extend the principles set out in ISA 315 (Revised 2019), which deals with the auditor's responsibilities to identify and assess risks of material misstatement. It enhances these by specifically focusing on fraud-related considerations, ensuring that auditors apply a fraud lens to the risk assessment processes mandated by ISA 315.

The EM highlights how ED-240 requires auditors to give special attention to fraud risk factors when performing risk assessment procedures. This includes understanding the entity's environment and internal controls, which are crucial for identifying potential opportunities for fraud.

The ED provides specific requirements and extensive guidance on how auditors should approach fraud risk assessment. This includes considering how fraud might occur, involving the understanding of possible schemes and scenarios in which fraud could be perpetrated.

Overall, ED-240 effectively clarifies how auditors should integrate fraud considerations into their risk assessment processes by building on the requirements of ISA 315 and other relevant ISAs. This approach aims to enhance the detection and prevention of fraud through more diligent and targeted audit planning and execution.

¹ 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 comments below](#)

Detailed comments (if any):

The EM explains that ED-240 significantly expands the requirements and guidance on how auditors should respond when fraud or suspected fraud is detected. This includes determining the implications for the audit and the necessary modifications to the audit approach. This section underscores the need for auditors to reassess the risk assessment and modify the nature, timing, and extent of further audit procedures to respond adequately to the identified risks.

Section 1-E (Paragraph 35) discusses the ongoing nature of communications with management and those charged with governance about fraud-related findings. It emphasizes the importance of clear and timely communication to ensure that those responsible for governance are fully aware of the issues and can take appropriate actions.

Paragraphs 55–59 provide detailed requirements for the auditor's actions upon the identification or suspicion of fraud. This includes assessing the implications of the fraud on the audit, evaluating whether the fraud indicates a significant deficiency in the entity's internal control, and considering the effect on the reliability of management's representations.

Paragraphs 66–69 outline the requirements for communicating about fraud with the appropriate level of management and with those charged with governance. The standard specifies that auditors should inform the appropriate level of management at least one level above those involved in the fraud, and, where fraud involves senior management, the auditor should report the matter directly to those charged with governance.

Together, these sections ensure that auditors are equipped with clear guidelines to adequately address and respond to fraud or suspected fraud. The standards aim to enhance the auditor's ability to perform diligent and responsive audit procedures, ensuring that all relevant parties are appropriately informed and that the integrity of the audit process is maintained.

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):

The EM discusses how ED-240 aims to improve transparency by requiring auditors to explicitly address fraud in the auditor's report when significant issues are identified. This includes disclosing key audit matters that relate to fraud or significant risks of material misstatement due to fraud.

It also stresses the importance of communication with those charged with governance about fraud findings, ensuring that they are well-informed of any fraud or suspected fraud identified during the audit and the implications it might have on the financial statements and the audit itself.

The auditor must communicate key audit matters related to fraud and include in the auditor's report a description of the auditor's responsibilities regarding fraud in the audit of financial statements. These disclosures are designed to provide a clear understanding to users of the financial statements about the extent of the auditor's efforts in identifying and addressing fraud.

The ED also clarifies the auditor's responsibilities concerning fraud, ensuring that the auditor's report communicates these duties comprehensively. This helps set appropriate expectations among stakeholders about what an audit can and cannot achieve in terms of detecting fraud.

These enhancements to transparency in ED-240 are intended to provide greater clarity and reassurance to users of financial statements about the auditor's role and findings regarding fraud. By requiring detailed disclosures in the auditor's report related to fraud, the standard aims to strengthen stakeholder trust in the audit process and the credibility of the financial reporting.

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 question of whether the enhanced transparency requirements about matters related to fraud introduced in ED-240 should be extended to audits of financial statements of entities other than listed entities, such as Public Interest Entities (PIEs), presents a nuanced debate, especially from the perspective of smaller accounting firms.

The EM discusses the potential implications of extending these transparency requirements to non-listed entities, including PIEs. The consideration here revolves around the balance between the benefits of increased transparency and the burden it may place on smaller entities and their auditors. There is an acknowledgment that while increased transparency can enhance trust and accountability, it may also result in additional compliance costs and complexity.

ED paragraphs 61–64 outline the specific requirements for the auditor to discuss matters related to fraud in the auditor's report. While the focus is on ensuring that all significant fraud risks and findings are communicated clearly, the application to non-listed entities, including PIEs, raises concerns about proportionality and the practical burden on smaller audit firms.

Smaller firms often operate with more limited resources than larger firms. Extending detailed reporting requirements to all entities, including non-listed PIEs, could strain these resources, impacting the firm's ability to service smaller clients efficiently.

For non-listed entities, which may include privately held companies or smaller public organizations, the need for detailed public disclosure about fraud matters could be seen as overly intrusive and potentially damaging to their reputation.

There is a need to weigh the actual benefits of such disclosures against the potential risks or disadvantages. For non-listed entities, the risk profile is often different, and the stakeholder requirements for information may not justify the same level of transparency required for listed entities.

While transparency undoubtedly enhances stakeholder trust, the expectations of users of the financial statements of non-listed entities might differ from those of listed companies.

In summary, while the principle of transparency is universally beneficial, its application should be tailored to the nature and needs of the entity under audit. It might be more appropriate for standards like those proposed in ED-240 to include flexibility or thresholds that differentiate between listed and non-listed entities, especially considering the operational realities of smaller audit practices. This approach would support the dual goals of maintaining high standards of audit quality and transparency, while also recognizing the diverse contexts in which different firms operate.

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 EM notes that the IAASB considered but ultimately decided against a separate stand-back requirement to evaluate all relevant audit evidence obtained, whether corroborative or contradictory. This decision was influenced by feedback that such a requirement could potentially be redundant, given that existing ISA standards already require auditors to critically assess audit evidence throughout the audit process.

It highlights concerns that a separate stand-back requirement could imply a higher level of responsibility for fraud detection than is feasible under the fundamental principles of an audit. Audits are designed to provide reasonable assurance and are not explicitly designed to detect fraud, especially complex fraud schemes that might involve collusion or sophisticated concealment strategies.

CPAs, especially those in smaller practices, are primarily trained in accounting and auditing, not in forensic investigation. There is a concern that a stand-back requirement might necessitate a level of scrutiny akin to forensic auditing, for which many CPAs may not have the necessary training or resources.

Including such a requirement could increase the complexity and length of audits, potentially leading to greater costs and inefficiencies, particularly for smaller firms with limited resources. This could also impact the overall feasibility of serving smaller clients effectively.

There is an ongoing debate about the "expectation gap" in auditing, where the public and other stakeholders may expect auditors to detect all instances of fraud, which is beyond the scope of a traditional financial statement audit. Adding a stand-back requirement could exacerbate this gap by suggesting that auditors have a greater ability to detect fraud than what is realistically possible.

Existing auditing standards already require auditors to consider the appropriateness and sufficiency of audit evidence when forming their opinion. Enhancing the requirements to critically evaluate evidence throughout the audit process might be sufficient without necessitating a specific stand-back provision.

In conclusion, the IAASB's decision appears to be aligned with maintaining the practicality and effectiveness of audits under current auditing standards, especially considering the operational realities and expertise of auditors, including those in smaller practices. This decision also helps manage the expectation gap regarding the auditor's role in fraud detection. However, ongoing education and guidance on evaluating audit evidence, especially in fraud contexts, remain crucial to ensure auditors are equipped to handle these challenging aspects of their work.

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):

The IAASB has aimed to incorporate scalability into ED-240, but whether it has achieved this effectively is subject to some debate. The concerns often stem from how the standard can be applied by auditors of smaller entities without imposing the same level of burden that might be expected in the audit of a larger, public company.

While ED-240 is intended to apply universally, the specific guidance it provides may not always clearly distinguish between requirements that are essential for larger entities versus those that are feasible for smaller entities. This can lead to challenges in application, where smaller entities might struggle with the relevance or practicability of certain requirements.

Smaller entities and their auditors often operate with more limited resources. Implementing extensive fraud detection procedures as suggested in ED-240 could be disproportionately burdensome for these smaller entities. This could include the intensity of documentation or the depth of investigation into fraud risk factors, which might not be as critical in a smaller, less complex context.

The standard does consider proportionality, which is a component of scalability. This means that the requirements are intended to be applied in a manner that is proportionate to the size and complexity of the entity and the risk of material misstatement due to fraud. However, the practical guidance on how to achieve this proportionality is not always clear or straightforward, which might lead to inconsistencies in application.

While the IAASB typically aims to include examples and guidance to aid in the application of its standards, there might be a need for more detailed guidance targeted specifically at the application of ED-240 in smaller or less complex entities. This would help ensure that auditors can more easily scale their procedures according to the specific circumstances of the audit.

Providing more detailed and practical examples specifically tailored for audits of smaller entities could help in applying the standards more effectively. Further, offering additional training and resources focused on the application of fraud-related auditing standards in smaller entities could improve the ability of auditors to implement these standards appropriately.

There is room for improvement in ensuring that these considerations are clear, practical, and effectively communicated to auditors handling audits of varying sizes and complexities. This would help minimize the burden on smaller entities and their auditors, ensuring that the standards are both effective and efficient across all contexts.

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):

Yes, ED-240 has been structured to align and integrate effectively with other ISAs to promote a cohesive application across the auditing process. This integration is crucial for ensuring that the auditor's approach to fraud is consistent with the general principles and detailed procedures outlined across the ISA suite.

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):

When considering the application of ED-240 from the perspective of a small firm, several additional points are worth raising to ensure that the standards are both practical and effective for audits conducted by smaller practices:

It's crucial for the IAASB to ensure that there is adequate training and support mechanisms in place for small firms. These firms might not have the same access to training resources as larger firms. Providing targeted training resources or guidance specifically designed for small firms could help ensure proper understanding and implementation of ED-240.

ED-240 raises the expectations for auditors in their consideration and detection of fraud. However, small firms might not always have in-house forensic expertise, which is often critical in complex fraud detection scenarios. Clarifying the expectations or providing guidelines on when and how to seek external forensic expertise could be beneficial.

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*

The application of enhanced fraud detection and reporting requirements could lead to increased audit costs and efforts, particularly impacting smaller entities audited by small firms. The IAASB might consider ways to mitigate these impacts, possibly through scalability guidelines that explicitly address cost-benefit considerations in fraud-related procedures.

With the increasing use of technology in audits, there should be clear guidance on the use of technological tools in fraud detection to ensure small firms are not disadvantaged if they have less access to advanced audit technology. Practical guidance on affordable technologies that can support fraud detection efforts would be valuable.

While transparency is crucial, the requirement for detailed reporting on fraud matters in the auditor's report might need to be balanced with considerations of the practical impacts on small entities. Specific guidance on how to report fraud findings in a manner that is proportionate to the size and complexity of the entity could prevent unnecessary reputational damage or concern.

Encouraging peer review and collaboration among small firms might help in sharing best practices and experiences in dealing with fraud-related challenges in audits. This could be facilitated through regional workshops, online forums, or professional networking groups.

Small firms often work closely with their clients. Providing auditors with tools or resources to educate their clients about the importance of fraud prevention measures and the role of the audit in detecting fraud could help in setting realistic expectations and improving the overall quality of the financial reporting environment.

Addressing these areas in the application material or through supplementary guidance from the IAASB can help ensure that ED-240 is effectively and efficiently implemented across all sizes of audit practices, thereby enhancing the overall quality and reliability of audits in detecting and addressing fraud.

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):

N/A

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):

The IAASB's proposal to set an effective date for the new standards in ED-240 approximately 18 months after the final standard's approval, while allowing and encouraging earlier application, appears to strike a reasonable balance between giving firms enough time to prepare and the perceived urgency of implementing enhanced fraud detection measures.