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)	California Society of Certified Public Accountants Accounting Principles and Assurance Standards Technical Committee
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Cynthia Musser, CPA
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	cindym@gpw.cpa
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).	CalCPA represents professionals working in public accounting firms and businesses throughout California. We collaborate with policymakers, state and federal agencies, regulatory bodies, and other key stakeholders to shape policies that advance the public interest and meet the needs of their clients and employers. We also provide our members with information and practical guidance on various technical topics to enhance their ability to support their clients and employers. The AP&AS committee consists of experienced professionals from practice and academia, specializing in audit and accounting services for public and private companies. The committee's primary role is to help inform the development and refinement of practical and relevant auditing and accounting standards. It does this by reviewing and, when necessary, providing feedback on proposed changes to standards that impact financial accounting, reporting, or assurance services.

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): Please provide clarification on the scalability of the requirements for fraud and/or suspected fraud when the (suspected) fraud is non-material and third-party. For example, does this standard require auditors to perform audit procedures for misappropriation of assets that could be considered non-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 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)[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: **Disagree, with comments below**

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

Detailed comments (if any): As mentioned in question 1 above, there is ambiguity of misappropriation of assets.

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): There is concern with the scalability of this standard as it relates to inconsequential / immaterial fraud or suspected fraud (i.e. information received through a whistle-blower program)

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): There is concern with including a statement in the auditor's report (KAM paragraph) related to fraud, stating there were no fraud related matters. This implies a conclusion to a level of engagement that is beyond the scope of a financial statement audit.

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): We do not agree that ED 240 should be applicable to entities other than listed entities, such as Public Interest Entities.

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 no further comments)**

Detailed comments (if any):

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): We disagree that ED 240 is scalable to all entities as noted in previous comments.

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 701[8]) to promote the application of the ISAs in an integrated manner?

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

Overall response: **Agree (with no further comments)**

Detailed comments (if any):

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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*

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: **See comments on translation below**

Detailed comments (if any): The definition of fraud could be different in various governing boards and translation in languages of various countries. In the U.S., the definition of fraud can be from the finding of a legal conclusion which is beyond the scope of a CPA practitioner to determine.

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): 18 months might not be enough time for all translations to their country's language and national due process. We would recommend 18 months after all the local adoptions and translations have been concluded.