

4 June 2024

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York  
10017 USA

Submitted electronically at [www.iaasb.org](http://www.iaasb.org)

Dear Willie,

**Comments on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft: 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**

The South African Institute of Chartered Accountants (SAICA) appreciates the opportunity to provide comments on the IAASB Exposure Draft.

SAICA is South Africa's pre-eminent accountancy body which is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 57 300 members and associates who hold positions as chief executive officers, managing directors, board members, business owners, chief financial officers, auditors, and leaders in their spheres of business operation.

To inform our submission, SAICA established a task group consisting of members of our Assurance Guidance Committee and its related project groups. Our Assurance Guidance Committee has approved this submission. We also had outreach sessions with a group of practitioners and a small group of users of financial statements.

As an overall comment, we are supportive of the proposed revision to the standard. Participants in our outreach to the group of users of the financial statements were particularly supportive of the proposals as they believed that the proposed revisions will assist to strengthen the standard on auditors' responsibilities related to fraud by defining the expectations in relation to fraud and promote transparency about the auditors' responsibilities and fraud-related procedures in the auditor's report.

Our responses to the questions posed in the explanatory memorandum contain suggestions to enhance clarity on certain proposals to facilitate consistent application of the standard.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli ([thandokuhlem@saica.co.za](mailto:thandokuhlem@saica.co.za)) or Angel Sithole ([angels@saica.co.za](mailto:angels@saica.co.za)).

Kind regards



Thandokuhle Myoli  
Executive: Audit and Assurance  
The South African Institute of Chartered Accountants

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:**

1. In general, SAICA supports the improvements and changes made to the standard. SAICA would like to encourage the IAASB to bring to the attention of the International Accounting Standard Board (IASB) the responsibilities the preparers of the financial statements have towards fraud so that fraud is not perceived to be an auditors' issue alone. It is recommended that this be elevated in the financial statements.

**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

2. 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):**

- 2.1 The IAASB's objective to ensure that the auditors consider the risk of material misstatement due to fraud as an integral part of the audit, was well articulated, as the auditor is required to plan procedures to obtain reasonable assurance that the financial statements are free from material misstatements due to fraud and to communicate these.
- 2.2 ISA 240(Revised) Par 2 (a) and (b) clearly explain the auditors' responsibility. Further to this the IAASB provided further clarity on ISA 240 (Revised) par 9 in ED 240. While the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one that relates to error, it does not diminish the responsibility of the auditor to plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements due to fraud.
- 2.3 We recommend that as part of ISA 700 (Revised), the IAASB should consider elevating the responsibilities of management and those charged with governance with regards to fraud in the audit of financial statements, on the audit report to enhance transparency

2.1 The auditor's responsibilities in respect of the following matters remain unclear:

- We are concerned about the broad scope of the definition of third-party fraud. We support the IAASB's objective not to expand the role of the auditor to detect third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements.<sup>1</sup> This is not apparent from the definition of fraud<sup>2</sup> or the application material<sup>3</sup>. We therefore propose:
- Consider amending the definition of fraud as follows: *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 through misstatement of the financial statements.*

2.2 The definition of third-party fraud in Par. A21 does not limit the role of the auditor to third-party fraud. Consider adding additional clarity in the application material how fraud or suspected fraud by a third party may cause the financial statements to be misstated.

2.3 We recommend the following to enhance the standard further:

- The standard is unclear on what is required of the auditor when those charged with governance (TCWG) are involved in fraud or suspected fraud. Consider including application guidance or procedures to assist the auditor in such instances.
- The examples provided in the ED-240 are financial statements driven, while auditors in public sector operate in environments where more than just the information in the annual financial statements are audited. Consider adding additional examples that focus on areas other than financial statements for public sector audits.
- Consider including examples in the application material of how instances of fraud can come to the attention of the auditor, at acceptance and continuance stage of the audit by involving a fraud specialist, media reports and investigations reports.
- If suspected fraud can be concluded to be immaterial without further investigation? What further steps are required to be taken by the auditor post concluding that fraud is immaterial. There is a specific concern about the potential implication of accumulation of non-material fraud on the group financial statements and consequently the responsibilities of the group auditor. This will promote consistent behaviour.

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<sup>1</sup> Explanatory Memorandum paragraph 92

<sup>2</sup> Proposed ISA 240 (Revised) paragraph 18(a)

<sup>3</sup> Proposed ISA 240 (Revised) paragraph A21

#### Professional Skepticism

3. 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):

- 3.1 There is a need to add application material to assist auditors in documenting professional skepticism. There are currently insufficient examples in the ED-240 of what the auditor can consider when applying professional skepticism.
- 3.2 Consideration should be given to including principles-based guidance/framework in the application material to assist auditors with triggers regarding the proper application of professional skepticism.
- 3.3 ED-240 is unclear on when the use of a fraud expert/specialist would be appropriate and how that links to exercising professional skepticism. Adding further guidance in the application material of practical scenarios where a fraud specialist would be required at different stages of the audit process to assist the auditor with triggers to consider when conducting the audit would enhance ED-240.
- 3.4 We recommended that guidance should be included in ED-240 on how the auditor can utilize information emanating from sources such as media articles, commission of enquiry reports and whistleblowing allegations reports as part of the fraud risk identification and assessment process and how the auditor can determine that these reports are reliable and reputable as part of exercising professional skepticism. In this regard, the IAASB should consider updating Par. A29.
- 3.5 The standard must be clear on the extent of evidence required to support risk assessment versus audit evidence on the financial statements.

#### Risk Identification and Assessment

4. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>4</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:** Disagree, with comments below

#### Detailed comments (if any):

- 4.1 ED-240 does not currently support more robust risk identification and assessment related to fraud in an audit of financial statements. This is because of the following:
- 4.2 At the client acceptance and continuation stage, the auditor tends not to consider fraud risk but only considers it when they have accepted the audit. Consideration could be given to include guidance in the application material to prompt the auditor to perform fraud risk identification and assessment during the client acceptance and continuance assessment stage.
- 4.3 We propose that the IAASB provide clearer and more explicit guidance on how the foundational risk assessment requirements of ISA 315 (Revised 2019) should be applied in the context of fraud when integrated into ED-240.
- 4.4 Further guidance needs to be included in the application material to clarify the following:
- ISA 315 (Revised 2019) paragraph A61 explains why the auditor obtains an understanding of the entity's business model. In the context of fraud risk identification, understanding the business at a strategic level, including the business risks it faces is exceptionally important because it provides the auditor with insight into management's intentions, i.e. the motivation behind their business decisions. Given intention is the key differentiator between material misstatement due to fraud and error, this is considered a key omission ED-240.
  - Par. 39 is unclear in its present format as to which types of internal controls need to be tested for deficiencies in preventing and detecting fraud. The link to ISA 315 (Revised 2019) is insufficient.
- 4.5 With respect to accounting estimates, we noted the requirements to perform a retrospective review of the outcome of previous accounting estimates ED-240 paragraph 28, and the evaluation

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<sup>4</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

of management’s judgments and decisions in making the accounting estimates included in the financial statements in ED-240 paragraph 51 and 52.

4.6 In ED-240 Par. 28, A47 and A136, the term significant, has been removed, however ISA 315 (Revised 2019) and 540 (Revised) refer to significant accounting estimates. This omission means that auditors are required to consider all estimates regardless of their nature, size, or inherent risk.

4.5 There are no requirements in ED-240 with respect to understanding the estimates, including the controls around estimates as it relates to risk of material misstatement of estimates due to fraud. I.e., the link between ISA 315 (Revised) and ISA 540 (Revised) and the context that explains the purpose of the assessment is included in these ISAs. Therefore, we propose enhancing Par. 28 to emphasizing why understanding, review and specific responses to estimates is particularly important in the context of the auditor’s responsibilities to fraud.

**Fraud or Suspected Fraud**

5. 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):**

5.1 While we appreciate the new procedures that were included in the ED-240 by the IAASB, SAICA is of the view that the procedures are very broad. Suspected fraud can have a more pervasive effect on the audit compared to known fraud. There is a need for clarity on how the auditor’s required response differs in this instance, for example: how does the auditor obtain further information about the matter when they don’t know if management or those charged with governance (TCWG) are involved? It is our view that responding to suspected fraud is more complex than responding to known fraud.

5.2 Consider including procedures part of Par 55 (a) to be performed by the auditor where TCWG are also involved in perpetrating fraud. The requirement and application material don’t provide any guiding principles on how auditors must approach instances of fraud or suspected fraud committed by TCWG or instances where management does not respond to identified fraud.

5.3 Par 69. ED-240 deals with reporting to an appropriate authority outside the entity. Consider moving the requirements in Par. 69 to Par. 55 (a) to address instances where TCWG are involved in fraud or management does not respond to fraud or suspected fraud.

5.4 The application material indicates the possibility of those charged with governance being involved in perpetrating fraud, but does not elaborate on the possible procedures or actions to be taken by the auditor: Para. A7–A10, A29 and A144–A145)

5.5 There is a risk that the standard may create the perception that the guiding principles reflected in par 55 of the standard and application material are written with the view that those charged with governance will never be in a position to perpetrate fraud which will negatively impact on the ability of the auditor to exercise professional skepticism.

*Par. 55 (b) If the entity has a process to investigate the matter, evaluate whether it is appropriate in the circumstances.*

5.6 This paragraph seems to indicate that management has an option not to have a process in place to investigate fraud by using the word “**IF**”. This contradicts with the responsibility of management to identify and prevent fraud as the first line of defence.

5.7 The standard does not include guidance on what the auditor should do in instances where management or TCWG does not understand their roles and responsibilities in relation to fraud in the audit of financial statements, which indirectly affects the audit report and the need to report a KAM.

5.8 The difference between procedures required to be performed in responding to significant fraud risks versus confirmed fraud versus suspected fraud is unclear. Applying the requirements in paragraphs 43 – 54 may not result in sufficient audit evidence to respond to a significant fraud risk that has not yet been linked to fraud or suspected fraud.

5.9 There is also a concern that this could result in more work for the auditor which is investigative in nature rather than providing reasonable assurance that the financial statements are free from material misstatements.

5.10 The IAASB should also consider including a procedure that relates to international and local laws and regulations as part of understanding the fraud. For example in South Africa, as part of understanding local laws and regulations, the auditor must consider the reporting of Reportable irregularities (RIs) to the local regulator. Par. 56 a(iii) may be added to the procedures of understanding fraud or suspected fraud in Par. 55 (a) in order to enhance ED-240 in this regard.

5.11 ED-240 needs to make provision for jurisdictional adaptations to the proposed KAM requirements, where law or regulation requires external reporting or may prohibit public reporting of a fraud-related matter. For example, in South Africa, section 45 of the APA requires a registered auditor to report a reportable irregularity without delay, if the registered auditor is satisfied or has reason to believe that a reportable irregularity has taken place or is taking place.



- 5.12 Par 57 (b): This paragraph is silent on the extent and value of the fraud; the significance of the fraud will depend on the level at which it is committed.
- 5.13 Par. A146 and A148 do not provide guidance on what to do if the entity denies the allegations or has done no further work or investigation into the matter. Is it then responsibility of the auditor to obtain an understanding of the matter via extended audit procedures to determine how; who perpetrated the fraud; and the extent of the fraud? We note that the standard is written for the auditor. Therefore, it is essential to provide guidance when management is not taking responsibility. Guidance should be included on what the auditor's response would be in such an instance where there is no management process.
- 5.14 Par. A148: Relates to scenarios of instances where management has a process in place and has acted on the identified or suspected fraud, consider including examples of instances where there is no process, or where no action has been taken by management or TCWG as part of Par. Consider including the details in A 150 and A151 in Par. 55 (d) of the standard to provide clarity.
- 5.15 A106. For public sector entities, misappropriation of assets (e.g., misappropriation of funds) may be a common type of fraud.*
- 5.16 The above application material has the potential of giving undue perception that fraud arising from misappropriation of assets only exists in the public sector audit engagements. It is essential for a standard in dealing with fraud to drive the view that fraud can occur in any audit, whether private or public sector audits.
- 5.17 A152: This refers to single instances of fraud. Cases may arise where there are multiple instances of possible fraud which individually may not be material but could be indicative of the entity's culture, weak control environment and oversight - e.g. fraud in assets, Supply Chain Management, payroll reimbursements etc.
- 5.18 The IAASB should consider providing guidance or procedures relating to what auditors should do when they cannot conclude the audit procedures in response to fraud or suspected fraud due to ongoing investigations, especially when this results in the financial statements being delayed due to the audit being incomplete. This comment is particularly relevant to ED-240 paragraph 59, because it may not yet be possible at this stage to determine the implication for the audit report.
- 5.19 Delaying the financial statements because of uncertainties related to suspected fraud is not in the public interest, because it may take an extended period to investigate and resolve the suspected fraud, creating significant uncertainties in the market because no information can be shared with the public during this time.

- 5.20 Par A153: Deals with the extension of reporting deadlines. There is no guidance to indicate how the extension will be balanced with a legal requirement that the audit report must be signed off at a specific date.
- 5.21 Further guidance in the application material is required regarding the actions that the auditor may need to undertake if suspected fraud is identified. For example, the standard could specify that steps to be undertaken include the following: 1. Updating the fraud risk level  
2. Adjusting the audit sample sizes.

Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report

6. 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):**

- 6.1 There is an appreciation of why transparency in the audit report is required as there is a demand from users of financial statements for more transparency regarding fraud-related matters. ED-240 could result in a change in behaviour from auditors which could promote consistency in reporting on fraud, especially for ongoing cases that have not been confirmed, and that currently may be reported inconsistently.
- 6.2 Requiring auditors to disclose their work on fraud could lead to greater accountability and diligence in the audit process. While we also accept that there are other fundamental principles of the code of conduct such as integrity, which require the auditor not to be associated with a false or misleading audit report, not reporting KAM relating to fraud where applicable could be misleading if omitted. We are of the view that the enhancements made to ISA 701 already provides for increase in reporting of KAMs related to fraud. Perhaps the ED-240 should elaborate on the fundamental responsibilities of the auditor to comply with ethical requirements.
- 6.3 We disagree that the proposed KAM requirements as the only option in ED-240 will achieve this transparency because:
- 6.4 The practicality of reporting fraud related KAMs could be a challenged , especially when investigations are ongoing and the outcome is uncertain. This could lead to difficulty in determining what to report and how to report it. This may further attract litigation against the auditor when there are grey areas or uncertainties. The disclosure of suspected fraud or

ongoing investigations could negatively impact on client's reputation and share price, especially if the suspicions are not substantiated or are still under investigation.

- 6.5 The standard is unclear on what is required of the auditor if the suspicions are not substantiated or are still under investigation. In cases of suspected fraud, at what point would the suspicion be enough to warrant consideration as a KAM?
- 6.6 There are concerns about confidentiality principles in the Code of Conduct regarding including a KAM on fraud on the audit report. If you have identified a possible fraudulent transaction, how do you balance the principle of confidentiality and requirement for the auditor to investigate the fraud when the auditor is only required to provide reasonable assurance. The requirement to report KAMs on fraud-related matters could significantly change the audit process, potentially requiring additional procedures to support the statements made in the audit report.
- 6.7 There is a view that it is inconsistent to require auditors to make statements about fraud in their audit reports when directors are not held to the same standard of disclosure in the financial statements. Some members were of the view that the standard should not be prescriptive as to when the auditor should disclose a KAM but instead should allow the auditor to exercise their professional judgement.
- 6.8 Currently, for example, management already has a section in the financial statements related to going concern. A similar approach should be considered for management if a similar requirement is being placed on the auditor to include a KAM related to fraud in the audit report. There is a concern that it may not be appropriate to require auditors to make statements about fraud in their reports when directors are not held to the same standard of disclosure.
- 6.9 We are of the view that users of the audit report, especially those without a financial background, might misinterpret the KAM on fraud as an assertion that this is a legal determination by the auditor.
- 6.10 The IAASB should consider including guidance as part of Par. 64 or Par. A 175 to clarify the link to ISA 701. Par 12. with regards to circumstances where the opinion has been modified because of the same matter that would have been included as a KAM.
- 6.11 “Par. 61. In applying ISA 701, the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A162–A168)”
- 6.12 Par. 64 could be misinterpreted by an average user as there being no fraud risks in the audit or even that the auditor is of the opinion that there are no instances of fraud in the financial statements.

6.13 The IAASB should consider removing the word “significant’ and rather refer to “ matters requiring auditor attention”.

7. 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: Agree, with comments below**

**Detailed comments (if any):**

- 7.1 Extending transparency requirements in the auditor's report about matters related to fraud to audits of entities other than listed entities, such as Public Interest Entities, is essential for promoting trust, accountability, and confidence in financial reporting and auditing processes. It helps protect stakeholders’ interests and contributes to the overall integrity and stability of the financial system.
- 7.2 Public Interest Entities, by definition, serve the public interest and often significantly impact various stakeholders, including investors, creditors, employees, and the general public. Transparency in the auditor's report helps build trust and confidence among these stakeholders by ensuring the audit process is thorough and effective in detecting and addressing fraud.
- 7.3 Like listed entities, Public Interest Entities are susceptible to fraud due to their size, complexity, and significance in the economy. Fraudulent activities within these entities can have far-reaching consequences, making it essential to provide transparency in the auditor's report about the effectiveness of the audit procedures in detecting and addressing fraud risks.
- 7.4 Public Interest Entities often operate in regulated environments and are subject to higher scrutiny regarding their financial reporting and governance practices. Transparency in the auditor's report holds the entity's management and auditors accountable in preventing, detecting, and addressing fraud.
- 7.5 Investors and other stakeholders rely on audited financial statements to make informed decisions about their investments and business relationships. Transparent disclosure about fraud matters in the auditor's report helps maintain market confidence by providing insights into the reliability of the financial information presented by the entity.

Considering a Separate Stand-back Requirement in ED-240

8. 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):**

- 8.1 The ED-240 should have a stand-back requirement given the importance of the auditor considering whether they have gathered sufficient audit evidence. We recommend that the IAASB including guidance on what to consider when performing the stand-back requirements with regards to material misstatements in the financial statements due to fraud.
- 8.2 As part of the need to change auditor behaviour towards encouraging the exercise of professional skepticism, the stand-back requirement is worth including as it would prompt the auditor to consider the evidence gathered in holistically before concluding whether the financial statements are materially misstated.
- 8.3 In many cases the procedures are performed by less experienced members. The stand-back provision should require that the engagement partner take responsibility for reviewing the relevant working papers and state that yes, the fraud assessment is sufficient or no additional procedures still need to be performed.
- 8.4 As part of the need to change auditor behaviour towards encouraging the exercise of professional skepticism, the stand-back requirement is worth including as it would prompt the auditor to consider the evidence gathered in holistically before concluding whether the financial statements are materially misstated.
- 8.5 This ED-240 should have a stand-back requirement given the importance of considering of whether the auditor has gathered sufficient audit evidence. It may also be appropriate for the IAASB to consider including guidance on what to consider when performing the stand-back requirements.

Scalability

9. 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 comments below**

**Detailed comments (if any):**

- 9.1 ED-240 requires the auditor to apply at least some of the fraud or suspected fraud requirements applicable to the circumstances to determine the effect on the audit engagement. Obtaining an understanding of the fraud or suspect in accordance with Par.55, is necessary to inform the engagement partner's determinations required in paragraph 56 irrespective of the type of audit engagement.
- 9.2 The scalability paragraph does not result in the auditor performing different audit procedures but rather highlights that depending on the entity's size, the documentation available may differ slightly in some instances. However, the auditor will still be required to obtain an understanding of the matter giving rise to fraud or suspected fraud.
- 9.3 Par. A58. In the case of a smaller or less complex entity, some or all these considerations may be inapplicable or less relevant.

#### Linkages to Other ISAs

10. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>5</sup> ISA 220 (Revised),<sup>6</sup> ISA 315 (Revised 2019), ISA 330,<sup>7</sup> ISA 500,<sup>8</sup> ISA 520,<sup>9</sup> ISA 540 (Revised)<sup>10</sup> and ISA 701<sup>11</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):

- 10.1 The ED-240 does not have guidance on how to respond to fraud in group audits, specifically, how to scale the audit procedures for various frauds that may not be individually material but could be qualitatively material if considered collectively.
- 10.2 In addition, it doesn't address challenges such as how to respond to frauds that occur at a lower level within the group, which may be perpetrated by management, and how the auditor should approach these when they are identified by internal auditors. We are of the view that guidance should be included in the standard to assist auditors with regards to risks related to transfer pricing.
- 10.3 The link to ISA 220 (Revised) can be further strengthened with regards to application guidance on possible risk factors identified during acceptance and continuance and utilisation of a fraud expect where appropriate.

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<sup>5</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>6</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>7</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>8</sup> ISA 500, *Audit Evidence*

<sup>9</sup> ISA 520, *Analytical Procedures*

<sup>10</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>11</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

#### Other Matters

11. 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): SAICA recommends the following enhancements to the paragraphs referred to below:**

- 11.1** *Par. 11. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.*
- 11.2** Par 11: Consider updating this paragraph to include material misstatement resulting from those charged with governance.
- 11.3** As part of the examples in Par. A7 we recommend that the IAASB should consider adding guidance on Supply Chain Management (SCM) and its direct impact on financial statements. There are possible irregularities that can occur during the awarding of a tender that could result in a preferred bidder being appointed at a higher price. Other examples include instances where the project has been delayed due to inferior work or even no delivery of services.
- 11.4** Par. A10. Consider adding guidance to provide clarity on how the auditor should address matters reported in the media.
- 11.5** P A11 (a): This paragraph only relates to management, consider including those charged with governance.
- 11.6** Par. A12: Consider adding guidance to provide clarity of instances of inherent limitations such as lost documents.
- 11.7** Par 11: Consider adding to material misstatement from management fraud - “those charged with governance” as this is also an area where fraud often occurs.



#### Translations

12. 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

13. 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):**

- 13.1 The lead time of 18 months is fair, considering the extent of the proposed changes. A shorter period would not provide enough time to adjust methodologies and processes.