

**Responses to IAASB’s Request for Comments in the EM for the ED,
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**

PART A: Respondent Details and Demographic information

Your organization’s name (or your name if you are making a submission in your personal capacity)	The Japanese Institute of Certified Public Accountants (JICPA)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Hidehiko Yuki, Executive Board Member, Auditing Standards
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Auditing, Professional Standards and Practices Division
E-mail address(es) of contact(s)	kansa@sec.jicpa.or.jp
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.	Asia Pacific
	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.	Jurisdictional/ National standard setter
	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):

We believe that ED-240 clearly sets 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.

However, some of the examples in application material paragraphs A2 - A6 and the examples of fraud risk factors in Appendix 1 seem to overlap, so we suggest that the IAASB consider deleting the duplicative examples in the application 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):

We agree with the proposals because we believe that ED-240 reinforces the exercise of professional skepticism about matters relating to fraud in an audit of financial statements.

In paragraph 20 of this ED, which sets out the requirements for authenticity of records and documents, it is proposed to delete the lead-in sentence of the extant ISA 240 paragraph 14: "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." We agree with this proposal on the basis that a similar statement remains in paragraph A24 of ISA 200, and paragraph A26 of this ED indicates that no change has been made from the existing approach to authenticity of records and documents by explaining that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that the terms in a document have been modified.

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):

We believe that ED-240 appropriately builds on the foundational requirements of ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statement.

However, we propose the IAASB consider the following points.

1. Although we understand that the extant ISA 240 contains a similar statement, paragraph A47 is a general statement of retrospective review of accounting estimates. We suggest modifying the application material to be more fraud specific, for example, by adding the following underlined word to the paragraph A47.

“A47. The purpose of performing a retrospective review of management’s judgments and assumptions related to accounting estimates reflected in the financial statements of the previous period is to evaluate whether there is an indication of a possible intentional bias on the part of management. It is not intended to call into question the auditor’s judgments about previous period accounting estimates that were appropriate based on information available at the time they were made.”
2. Paragraph A54 gives an example that an unexpected relationship may be identified when the market values of government bonds depreciate as a result of central banks increasing interest rates to counter inflation. However, the fair value of government bonds is often observable, and the risk of material misstatement due to fraud is generally not considered to be high. Therefore, we do not believe that this is an appropriate example of an unexpected relationship. We suggest revising the example to a more general one, such as the relationship between sales and operating expenses.
3. The first sentence of paragraph A69 states "... and through considering information from external sources", but there appears to be no reference to external sources in the examples provided. We also do not believe that information sources are limited to external sources. Therefore, we suggest removing "from external sources" in the first sentence.
4. The examples in paragraph A104 include a reference to "employee retirement benefits liabilities". However, we notice that identifying risk of material misstatement due to fraud for employee retirement benefits liabilities is limited in practice. We suggest, for example, changing to another example such as valuation of equity method investment or securities, or removing it due to the large number of examples in this ED as a whole.

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):

We agree that ED-240 establishes robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit.

However, we propose the IAASB consider the following points.

1. Paragraphs 55(c) and A151 use the term "remediation measures," while the last example in paragraph A41 and Appendix 1 use the similar term "remedial action(s)." In addition, in the extant International Standards on Quality Management (ISQM) and International Standards on Auditing (ISA), "remedial action(s)" is often used (e.g., ISQM 1, paragraph 42; ISA 250, paragraph A25; ISA 265, paragraph A1) and "remedial measures" is not used. We believe that the term "remedial action(s)" should be used throughout the standard if it is intended to mean the same thing.
2. The lead-in of paragraph 55 and paragraph 55(a) through (c) use the term "the matter" to refer to identified fraud or suspected fraud, but paragraph 55(d) uses the term "identified fraud or suspected fraud" and the terminologies are not consistently used. It may cause a misunderstanding that the meaning of the term in paragraph 55(d) is different from others. Therefore, if they are intended to mean the same thing, the wording should be consistent.
3. Paragraph 55(d) requires the auditor to determine whether control deficiencies exist, including significant deficiencies in internal control related to the identified fraud or suspected fraud. However, paragraph 55 is the first requirement that applies in all circumstances if the auditor identifies fraud or suspected fraud. As a consequence, we believe that it may be difficult to determine whether an identified deficiency in internal control is a significant deficiency at the stage of obtaining an understanding of identified fraud or suspected fraud in accordance with paragraph 55. Therefore, we propose to delete the reference to "significant deficiencies in internal control" from paragraph 55(d) and make a reference in paragraph A150 to ISA 265 which requires the auditor to determine whether there is a significant deficiency in internal control. Please see below for details.

"55. If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter in order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A146–A151)...

(d) Determine whether control deficiencies exist, ~~including significant deficiencies in internal control~~ related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud..."

"A150. If the auditor has identified one or more control deficiencies, ISA 265 requires the auditor to determine whether, individually or in combination, the deficiencies constitute a significant deficiency
~~provides requirements and guidance about the auditor's communication of significant deficiencies in~~

~~internal control identified during the audit to those charged with governance.~~ Examples of matters that the auditor considers in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:"

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):

We agree with the proposal in ED-240 because we believe that enhancing transparency about matters related to fraud in the auditor's report is important in order to provide useful information to the users and from the perspective of public interest. On the other hand, if the Key Audit Matters (KAMs) related to fraud are communicated every year, there is a concern that the content will become boilerplate. We suggest that further improvements be made in finalizing the standard so that the intended enhancement in transparency can be achieved as expected. We also suggest that monitoring in the post implementation review be conducted to ensure that the intended enhancement in transparency is achieved.

We also propose that paragraph A162 be deleted, as it appears to be similar to the requirement in paragraph 61.

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: [Agree, with comments below](#)

Detailed comments (if any):

Considering the objectives of the exposure draft (ED) for "Listed Entities and PIEs (Track 2)" project published in January 2024 and other factors, we agree with applying the proposal to audits of financial statements of entities other than listed entities, i.e., PIEs. However, as we also commented on the ED for "Listed Entities and PIEs (Track 2)" project, we propose that the IAASB provide flexibility by permitting the jurisdiction not to extend KAM requirements to the audits of certain PIEs which have a limited number of intended users of the auditor's report, such as non-publicly traded entities, even if the jurisdiction decided to refine the scope of the PIEs to include those 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 comments below](#)

Detailed comments (if any):

We believe that a stand-back requirement is needed precisely for ISA 240. On the other hand, we understand that a more coherent solution for the various stand-back requirements in the ISAs as a whole will be considered in the "Integrated Project," given the number of stand-back requirements has increased across the ISAs and the possibility of their diminished effectiveness. Therefore, we agree with the IAASB's proposal not to include stand-back requirement in ISA 240, on the basis that the Integrated Project will set out appropriate stand-back requirements for the ISAs as a whole.

Scalability

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

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

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

Detailed comments (if any):

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² 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 \(with no further comments\)](#)

Detailed comments (if any):

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):

1. Paragraph A37 provides examples of when the engagement partner plans for direction, supervision and review to respond to identified risks of material misstatement due to fraud as the application material of paragraph 23. Since these examples are related to Engagement Resources, it would be more appropriate for paragraph A37 to reference paragraph 22 as a related requirement.
2. Three examples are given in paragraph A138. Since similar examples are given in paragraph A134 of ISA 540 (Revised), we propose reconsidering the necessity of including them in paragraph A138.
3. Paragraph A143 states that, as the analytical procedures performed near the end of the audit, automated tools and techniques (ATT) may be used to identify unusual or inconsistent transaction posting patterns in order to determining if there is a previously unrecognized risk of material misstatement due to fraud. However, we believe that such procedures are typically performed as part of the risk assessment and are unlikely to be performed near the end of the audit. Therefore, we propose paragraph A143 to be removed.
4. The title of ISA 805 in the Proposed Conforming and Consequential Amendments is mixed up with the title of ISA 800, which needs to be corrected.

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*

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):

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: [No response](#)

Detailed comments (if any):