

Comments on the Proposed International Standard of Auditing 240 (Redrafted): The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements

1. INTOSAI Financial Audit Guidelines Subcommittee recognizes that ISA 240 is drafted solely to apply the new drafting conventions to the standard, and that comments are not sought on other issues. The following comments are therefore confined to such changes compared to the fairly new extant ISA 240. In our opinion, the comprehensibility and clarity of the standard is considerably improved, and the redrafted standard contains the important requirements and application material, provided the premises and scope on which it is based. We also believe there is an appropriate balance between the requirements and the application material, and that, in the application material, it should be sufficient to refer to the relevant requirements, instead of repeating them. General repetition will only lengthen the application material, and make the new text less accessible.
2. The scope of ISA 240, as it is described in paragraphs 1 and 2, is however too narrow for public sector auditing. "Although fraud is a broad legal concept, for the purpose of the ISAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements", according to paragraph 4.

In the extant ISA 240, this scope is partly balanced by the Public Sector Perspective, paragraph 2, which states:

"In the public sector the scope and nature of the audit relating to the prevention and detection of fraud may be affected by legislation, regulation, ordinances or ministerial directives. The terms of the mandate may be a factor that the auditor needs to take into account when exercising judgment."

As pointed out in the guide for respondents, the IAASB's current policy is to include such considerations within the body of an ISA. The perspective mentioned above is however not retained, since it is repetitive of general statement made in ISA 315 (Redrafted), and a similar statement may also be made in ISA 200 when it is redrafted, according to Supplement to Exposure Draft, Proposed ISA 240 (Redrafted): Mapping Document.

In this case, however, we believe that the substance of the Public Sector Perspective, paragraph 2, which is highly relevant to the fraud issue, should be stated explicitly, and therefore repeated in ISA 240 (Redrafted), either connected to the Introduction (paragraphs 1-9), or to the Application Material, e.g. between the extant A1 and A2, using the subheading *Considerations Specific to Public Sector Entities*, as for A57 and A66.

3. In the public sector, the objective of the auditor may be affected by legislation, regulation, ordinances or ministerial directives, in line with the Public Sector perspective cited above. In our opinion, a corresponding phrasing could preferably be inserted in the section *Objective to be achieved* (paragraph 11).