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## INDEPENDENT REGULATORY BOARD FOR AUDITORS

### COMMITTEE FOR AUDITING STANDARDS

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#### **IAASB Opens Public Consultation to Strengthen Auditors' Efforts Related to Fraud**

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The International Auditing and Assurance Standards Board (IAASB) has published a consultation document that proposes a significant strengthening of its [International Standard on Auditing \(ISA\) 240 \(Revised\), \*The Auditors' Responsibilities Relating to Fraud in an Audit of Financial Statements\*](#) (the Exposure Draft).

In its announcement, the independent standard-setting body noted that recent corporate failures globally have underscored the benefits of clarifying and enhancing the role of auditors in responding to fraud and suspected fraud as a means of enhancing public trust in financial reporting.

IAASB Chair, Tom Seidenstein, emphasised that the proposed revisions define the expectations in relation to fraud; delineate more robust procedures; and increase transparency about the auditors' responsibilities and fraud-related procedures in the auditor's report. "While many participants in the financial reporting ecosystem, particularly management and those charged with governance, have a role in preventing fraud, our standard focuses on the key role that auditors play. While auditors are not policemen, they can and must play a role in identifying and responding to material misstatements of the financial statements due to fraud and communicating their work to users. This proposed standard is an important step forward," he said.

#### **Key Proposed Changes**

The Exposure Draft's proposed revisions include:

- Clarified auditor responsibilities relating to fraud in an audit;
- Emphasised professional scepticism, to ensure auditors remain alert to possible fraud and exercise professional scepticism throughout an audit;
- Strengthened identification and assessment of risks of material misstatement due to fraud;
- Clarified response to fraud or suspected fraud identified during the audit;
- Increased ongoing communication with management and those charged with governance about fraud;
- Increased transparency about auditors' responsibilities and fraud-related procedures in the auditor's report; and

- Enhanced audit documentation requirements about fraud-related procedures.

### **Relevance for South Africa**

As the audit regulator, the Independent Regulatory Board for Auditors (IRBA) views this consultation as an important project that addresses issues related to restoring confidence in the auditing profession and the audit product in South Africa.

The perpetration of fraud, causing material misstatements in the financial statements and/or non-compliance with laws and regulations, has become more prevalent at entities in South Africa over the past few years. Registered auditors are required to be alert to the possibility of fraud, thereby enabling them to identify and appropriately respond to the risks of material misstatement due to fraud.

The IRBA, through its Committee for Auditing Standards (CFAS), developed and published the [IRBA Staff Audit Practice Alert 4: A South African Perspective on the Auditor's Considerations Relating to Fraud](#) (Fraud Staff Alert) in June 2020. This Fraud Staff Alert serves to provide auditors with implementation guidance in responding to the risks of material misstatements due to fraud and/or non-compliance with laws and regulations.

In evaluating the Exposure Draft's proposed revisions, registered auditors may want to reflect on whether:

- The proposed revisions adequately cater for South Africa specific circumstances; and
- The Fraud Staff Alert continues to provide suitable implementation support.

### **Request for Comments**

The IRBA's Committee for Auditing Standards welcomes comments on all matters that are addressed in the Exposure Draft. This includes feedback on the Questions to Respondents (using the applicable [Response Template](#)), as set out in the Explanatory Memorandum, and any general comments.

Furthermore, we invite respondents to advise us of any issues or South Africa-specific challenges that should be considered. Comments should be submitted via email to [standards@irba.co.za](mailto:standards@irba.co.za) by **10 May 2024**. All views will be considered as a public record.

Alternatively, auditors and other interested stakeholders can submit comments directly to the IAASB via its website by **5 June 2024**.

A PDF copy of the Exposure Draft and the response template are available and may be downloaded from the exposure drafts page of the [IRBA website](#). Should you have any other queries or experience any technical difficulties in downloading the documents, please do not hesitate to contact the Standards Department by emailing [standards@irba.co.za](mailto:standards@irba.co.za).

### **Planned IAASB Video Series to Facilitate an Understanding of the Revisions**

During the consultation period, the IAASB will release a videos series to help stakeholders understand the proposed revisions and their implications for strengthening the financial

reporting ecosystem.

**Imran Vanker**

**Director: Standards**

***About the IRBA***

*The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.*

*The statutory responsibilities of the Committee for Auditing Standards are to assist the IRBA to develop, maintain, adopt, issue or prescribe auditing pronouncements; to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and to promote and ensure the relevance of auditing pronouncements.*