

(April 2006)

Explanatory Statement

***ASA 240 The Auditor's
Responsibility to Consider
Fraud in an Audit of a
Financial Report***

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

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The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

Purpose of Auditing Standard ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*

The purpose of Auditing Standard ASA 240 is to establish mandatory requirements and to provide explanatory guidance on the auditor's responsibility to consider fraud in an audit of a financial report and expand on how the standards and guidance in ASA 315 *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, and ASA 330 *The Auditor's Procedures in Response to Assessed Risks*, are to be applied in relation to the risks of material misstatement due to fraud.

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Auditing Standard ASA 240 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

Operative Date

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from Auditing Standard AUS 210 (June 2004) *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*

The main differences between ASA 240 and AUS 210 are that in ASA 240:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 210 by the word 'should'.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 210 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. Explanatory guidance relating to the following matters, not contained in AUS 210, is included:
 - (a) Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor by a person regarding contraventions or possible contraventions of the law. In such circumstances, the auditor or a member of the audit team may be prevented from

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communicating that information to management or those charged with governance in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. Consequently, the auditor may need to consider the implications for the audit engagement (paragraph 102).

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 12/05 *Proposed Auditing Standard: The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report (Re-issuance of AUS 210)* was issued on 28 October 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.