



Certified General  
Accountants  
Comptables généraux  
accrédités

Certified General  
Accountants Association  
of Canada

Suite 800  
1188 W Georgia Street  
Vancouver, BC  
Canada V6E 4A2

Tel: 604 669-3555  
Fax: 604 689-5845  
www.cga-canada.org

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Mr. James Sylph  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA

Dear Mr. Sylph:

Thank you for the opportunity to provide feedback on the IAASB's Exposure Draft ISA 240 "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements."

CGA-Canada commends IAASB for an extremely well thought out and highly developed Exposure Draft. It is indeed a model upon which other standards should be measured against.

Please consider the following recommendations:

*Responsibilities of those charged with governance and of management:*

Often in the SMP/SME environment those charged with governance are often individuals who are (or are related to those) charged with management. It is not only that the structures may be weak. There often is simply no differentiation between the Board and Management. Therefore the culture of honesty, ethical behaviour and values becomes even more important because there is no separation of duties, responsibilities or accountability. The owner, who is often the manager, or key driver, is in a position to directly control, never mind influence, accounting estimates and valuations. The number of professional level staff is usually limited, which combined with lack of *independent* internal oversight of management provides potential for aggressive earnings management. These factors should be considered in this section.

*Professional Scepticism:*

Paragraphs 21 to 23 speak to maintaining an attitude of professional scepticism. This is extremely problematic for a small audit firm who finds themselves more closely aligned with the client on an ongoing basis (in such roles as that of advisor or as a routine source of tax and accounting information). This is clearly different from a large firm where services are provided by a number of disparate people who are less likely to develop close relations with the client. Rather than asking the practitioner to set aside any *prior beliefs* that the engagement team members may have that management and/or governance members are honest and have integrity, it would be more appropriate that the practitioners acknowledge the beliefs and seek to reassess them. It is critical to note that up to this point a practitioner's prior experience and knowledge of the client and its management factors were a part of the process of risk assessment. This may somewhat lessen the overriding concern that the engagement is moving from a value-added attest engagement to a more costly adversarial activity.

*Risk assessment procedures:*

This section speaks to how the auditor might obtain responses to direct inquiries about the existence or suspicion of fraud, including in-house legal counsel, and the chief ethics officer or equivalent. These personnel will not

exist in the SME, and thus the SMP is going to have to consider how else they might obtain this information despite the lack of personnel. Other alternative procedures, such as review of the minute book, will only be possible if such documentation exists, which will make determination of legal or ethics issues problematic.

Unique to an SMP environment is the need to persuade management that the requirement for internal controls are necessary because there is generally an inherent desire to trust employees with greater authority levels in these smaller entities. This can provide for easy concealment of the fraudulent activity, and also makes the auditor's job more difficult. Therefore the suggestion to conduct testing at dates other than the interim or year end periods should likely be emphasized more strongly in the SMP audit.

As well, from an SMP perspective an increased emphasis on alternative verification and testing is particularly important when risk of fraud is high. While this is referenced in the ED it might be useful to have a specific reference to this need when engaged by a SME without sufficient internal controls. If auditors are going to use ISA240 as a manual on Fraud and Error let's be front and centre so the SMP cannot miss the appropriate response.

*Conclusion:*

It would stand to reason that identifying a problem related to fraud might be more difficult to address within a smaller organization, given the closer relationship with the client, as well as the flatter structure within which to appeal to should a problem be encountered, it might be a positive suggestion to the SMP to ensure that they clearly articulate to the client *prior* to the start of the engagement what procedures will be followed should this circumstance arise. This will mitigate further discomfort later, should the situation develop.

Please advise if we can provide further information on the subject.

Best regards,

**Original Signed by**

Anthony Ariganello, B.Comm, CGA  
President and COO