

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

Guide for Respondents

Comments are requested by **June 5, 2024**.

This template is for providing comments on the Exposure Draft (ED) of *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 (ED-240)*, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the ED [web page](#) to upload the completed template.

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	AICPA
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Linda Delahanty
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Sara Lord, Jennifer Burns
E-mail address(es) of contact(s)	Sara.Lord@rsmus.com Jennifer.Burns@aicpa-cima.com Linda.Delahanty@aicpa-cima.com
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.	North America
	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:

Overarching feedback regarding ED-240

We appreciate the opportunity to provide feedback regarding the IAASB's project to clarify the role of the auditor in relation to fraud in an audit of financial statements. We continue to believe that each participant in the financial reporting ecosystem plays a role that contributes to high-quality financial reporting, as well as audit quality, particularly as it relates to fraud. Because of this, we believe that any changes to ISA 240 need to be accompanied by further public education and clarification to avoid continued misconceptions about the role of the auditor in identifying fraud. As an example, we note the importance of an entity's internal control framework as it relates to anti-fraud measures. While we recognize the existence of many internal control frameworks, we observe that in the United States (U.S.), the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* (2013) provides relevant guidance to many entities.

While we are supportive of the overall direction of the project, we have a few concerns about ED-240 that we will address in this letter. Such concerns include the scalability of the requirements when fraud or suspected fraud is identified, fraud-related transparency in the auditor's report, the interplay between ED-240 and ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, and the way in which technology is addressed.

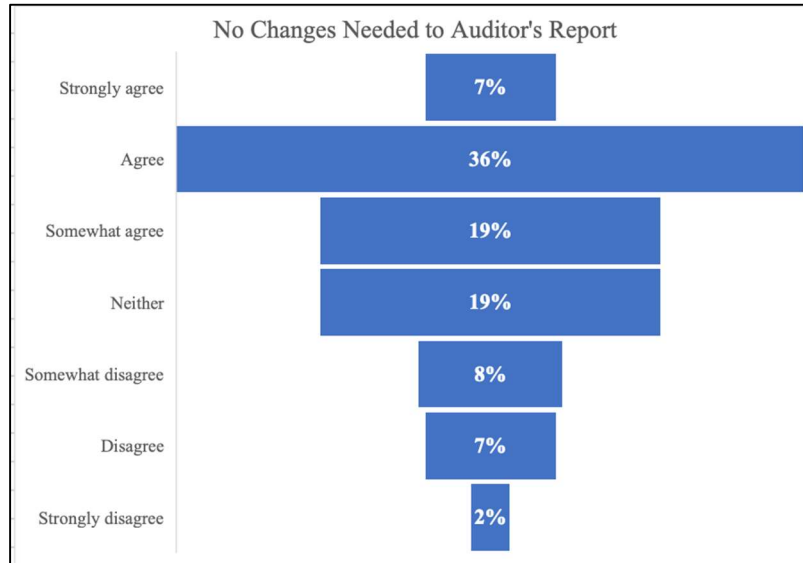
Scalability of Requirements When Fraud or Suspected Fraud is Identified

We understand the IAASB's desire to include requirements in ED-240 (paragraphs 55-59 of ED-240) to enhance the auditor's responsibilities when fraud or suspected fraud is identified beyond the requirements that currently exist, given that auditors may look to ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, the IESBA Code of Ethics for Professional Accountants, and other regulatory requirements (such as, section 10A of the U.S. Securities Exchange Act of 1934) for guidance. While we support the intent of these requirements, we are concerned that the requirement in paragraph 55 of ED-240 is not scalable. It is unclear from the explanatory memorandum as to the intent of paragraph 55 and whether each element of the requirement needs to be applied for every identified fraud or suspected fraud, including those that are clearly inconsequential. We believe that paragraph 55 of ED-240 could result in an onerous and unnecessary work effort by the auditor on matters that are clearly inconsequential. Directing resources to areas of remote risk of material misstatement to the financial statement is contrary to the risk-based audit approach that underpins ISA 315 (Revised 2019) and ISA 330, *The Auditor's Responses to Assessed Risks*. This could negatively affect audit quality by unnecessarily diverting the auditor's attention from higher risk areas. We encourage the IAASB to better clarify the auditor's responsibilities in ED-240 in such circumstances. See our further response to question 4.

Transparency in the Auditor's Report and Related ASB Outreach

In the summer of 2022, the ASB surveyed financial statement users and preparers in the U.S. to obtain their perspectives on the content of the auditor's report and transparency related to fraud in the auditor's report. The survey was distributed to multiple groups and 134 complete responses were collected. The ASB also conducted interviews with U.S.-based financial statement users and preparers in the fall of 2022 to obtain additional insights related to these matters. Twenty-six individuals were interviewed.

The outreach found that 62% of survey respondents strongly agree, agree, or somewhat agree with the statement that “the content and length of the current version of the auditor’s report is appropriate and no additional information is necessary.” A not insignificant proportion, 17%, do not believe additions to the report are needed because the current report is “too long.” The graph below also illustrates whether respondents believe changes to the auditor’s report are needed.



We believe any changes to the auditor’s report should enhance the information provided and address the expectation gap between financial statement users and auditors; enhance audit quality; and establish reporting requirements that are also clear with regard to management’s responsibility as the original source of entity-specific information.

We are concerned that requiring Key Audit Matters (KAMs) for specific topics, irrespective of whether they genuinely represent key aspects of the audit, lacks usefulness and diminishes the overall purpose of KAMs. Moreover, we disagree with requiring a statement in the auditor’s report that no fraud KAMs were identified because such a statement may be misunderstood by financial statement users as providing an opinion specifically related to fraud.

If the IAASB proceeds with specific requirements for reporting fraud-related KAMs, we believe such requirements are better placed in ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, rather than ED-240, to streamline the reporting process and ensure consistency across audit engagements. We also encourage the IAASB to evaluate the cumulative impact and usefulness of all proposed changes to the auditor’s report from the fraud, going concern, and public interest entities (PIEs) projects.

See our further response to question 5.

Interplay with ISA 315 (Revised 2019)

As noted below in our responses to questions 3 and 9, we are concerned that the linkages between ED-240 and ISA 315 (Revised 2019) might inadvertently lead auditors to duplicate risk assessment procedures and related documentation. We encourage the IAASB to further clarify in ED-240 which fraud-related risk assessment procedures are truly incremental compared to those that are repeated

from other ISAs and emphasize that incremental fraud risk assessment procedures should be integrated into the auditor's overall risk assessment procedures. Additionally, we recommend the IAASB update the Nonauthoritative Guidance on Fraud in an Audit of Financial Statements "[The Fraud Lens — Interactions Between ISA 240 and Other ISAs](#)" issued in May 2022 to better explain the linkages between ED-240 and other ISAs (in particular, ISA 315 (Revised 2019)). One way in which to help practitioners understand and apply the "fraud lens" when performing risk assessment procedures may be to illustrate the linkages similar to the flowchart in [ISA 540 \(Revised\) Implementation Tool](#). Please see the appendix "Linkages Between ISA Risk Assessment Requirements and ED-240" at the end of this comment letter as a possible way to illustrate such links.

Technology

We recognize that the IAASB is planning to establish a position addressing the impact of technology in the IAASB's standards. We recommend the IAASB retain a principles-based approach in the ISAs and consider creating a separate technology addendum to address technology issues that can be continuously updated as technologies evolve. We believe that some of the technology-related guidance included in ED-240 may be misleading and confusing to the auditor. We believe the brief references to artificial intelligence throughout the application material are overly abstract and lack practical guidance. Additionally, we are concerned the application material relating to cybersecurity may create confusion among auditors regarding their responsibilities in this domain. We are also concerned the application material relating to automated tools and techniques (ATTs) and technology for evaluating document authenticity could inadvertently imply that it is always necessary to use these tools to obtain sufficient appropriate audit evidence relating to the risks of material misstatement due to fraud. Furthermore, because technology is rapidly evolving, it is likely that the technology-related content in ED-240 will quickly become obsolete.

ASB Outreach

Insights from ASB Outreach – Interviews with Forensic Specialists

Between July and September 2023, the ASB performed outreach with 26 forensic professionals regarding best practices for considering fraud in an audit of financial statements. Insights obtained through this outreach helped to inform various of our recommended enhancements to ED-240 and have been incorporated in our feedback to responses to questions 3 and 10 (referred to as "Insights from ASB Outreach").

Format of Recommendations

In the remainder of this letter, we provide recommendations in response to certain of the IAASB's questions. Language in ***bold italics*** is new language we are recommending be added to ED-240, while we denote recommended language to be removed in ~~strike through~~.

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 ED-240 helps to clarify the auditor's responsibilities relating to fraud in an audit of financial statements while retaining the inherent limitations of the audit. However, we believe clarification is necessary related to the auditor's responsibilities for nonmaterial fraud as well as when fraud is clearly inconsequential as further explained in our response to question 5. We also provide several recommendations for further clarity as detailed below.

We recommend that the IAASB provide further guidance relating to paragraph 8 and how to apply ED-240 when an identified or potential misstatement due to fraud (a) has been determined to be quantitatively material; (b) has not been determined to be quantitatively material but may be qualitatively material (for example, the fraud involves senior management or is indicative of a pattern of fraud); or (c) has been determined to be neither quantitatively nor qualitatively material, and list the relevant requirements in ED-240 to help auditors navigate ED-240 in those situations.

We also believe that additional clarification in the following areas is needed to further enhance the auditor's understanding of their responsibilities:

Responsibilities of the Auditor, Management and Those Charged With Governance

Responsibilities of Management and Those Charged With Governance

Paragraph 3

We recommend retaining language from extant ISA 240 within the last sentence in paragraph 3. We believe this content is helpful for auditors because it provides a clearer and more detailed example of management overriding controls to manipulate earnings.

.03 ... Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings ***in order to influence the perceptions of financial statement users regarding the entity's performance and profitability.***

Key Concepts in this ISA

Characteristics of Fraud

New Paragraph A1A Related to Paragraph 4

New Paragraph A1A

We recommend adding application material to paragraph 4 to describe the inherent limitations of determining intent. This additional content will provide clarity about the auditor’s responsibilities related to intent and help minimize confusion about the auditor’s responsibilities.

Characteristics of Fraud (Ref: Para. **4-5**)

A1A. Intent is often difficult to determine, particularly in matters involving accounting estimates and the application of accounting principles. For example, unreasonable accounting estimates may be unintentional or may be the result of an intentional attempt to misstate the financial statements. Although an audit is not designed to determine intent, the auditor’s objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.^{fn}

^{fn}ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph 11.

Other Paragraphs

Please see our response to question 10 for comments that are more editorial in nature related to paragraphs A3 (par. 5), A5 (par. 5), and 6.

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 are supportive of the requirements related to maintaining professional skepticism, which is a critical aspect of considering fraud risk factors and addressing the risk of material misstatement due to fraud when performing an audit. We offer the following suggestions to further clarify and enhance the auditor’s responsibilities to maintain professional skepticism.

Professional Skepticism and Professional Judgment

Paragraph 12

We suggest adding additional language from extant ISA 240 to the end of paragraph 12 to reinforce that audit procedures that are effective for detecting error may not be effective for detecting fraud. While we recognize that ED-240 focuses on fraud and not error, it is difficult to bifurcate the two. The auditor cannot ignore that their responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error.

Professional Skepticism and Professional Judgment

12. In accordance with ISA 200,¹ the auditor is required to plan and perform the audit with professional skepticism and to exercise professional judgment. The auditor is required by this ISA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit, **considering the potential for management override of controls, and recognizing that audit procedures that are effective for detecting error may not be effective in detecting fraud.** (Ref: Para. A13–A14)

Professional Skepticism

Paragraph 19

We recognize that paragraph 23 of the explanatory memorandum of ED-240 explains that the IAASB believes that referring to the auditor's preconceptions based on past experience about the honesty and integrity of management and those charged with governance may serve to undermine the exercise of professional skepticism. However, we continue to believe that it is important to specifically reinforce with auditors that maintaining professional skepticism is critical, notwithstanding the auditor's past experience. Therefore, we recommend the following language from extant ISA 240 be included in paragraph 19 of ED-240.

19. In applying ISA 200,² the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, **notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.** (Ref: Para. A24–A25)

Paragraph 20 and Related Application Material

Paragraph 20

As discussed in paragraph 25 of the explanatory memorandum to ED-240, the IAASB removed the lead-in sentence to paragraph 20 due to concerns that it might undermine the requirement for the auditor to respond appropriately when conditions are identified that indicate a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. This decision was influenced by the existence of paragraph A24 of ISA 200, which already states that auditors may accept records and documents as genuine unless they have reason to believe otherwise. However, we firmly believe that this language should also remain within the requirements of ED-240 to clarify the auditor's work effort as it pertains to considering the authenticity of records or documents obtained during the audit, consistent with the intent of the requirement as described in the application material.

20. **Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.** If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A26–A28)

¹ ISA 200, paragraphs 15-16

² ISA 200, paragraph 15

Paragraph A26

We agree that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate a record or document may not be authentic. Accordingly, we recommend that the introduction to the examples in paragraph A26 better align with this view and avoid using “Conditions that, if identified,…” This language might inadvertently lead auditors to believe that the paragraph applies only when conditions are explicitly identified by the auditor. Instead, any conditions that, “if they come to the auditor’s attention,” should prompt the application of paragraph A26.

A26. 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 terms in a document have been modified. However, audit procedures performed in accordance with this or other ISAs, or information from other sources, may bring to the auditor’s attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. Paragraph 20 applies if the auditor identifies such conditions during the course of the audit.

Examples:

Conditions that ***may indicate*** if identified, ~~may cause the auditor to believe that~~ a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor. include:

- Unexplained alterations to documents received from external sources.
- Serial numbers used out of sequence or duplicated.
- Addresses and logos not as expected.
- Document style different to others of the same type from the same source (e.g., changes in fonts and formatting).
- Information that would be expected to be included is absent.
- Invoice references or descriptors that differ from other invoices received from the entity.
- Unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms (e.g., purchase costs that appear unreasonable for the goods or services being charged for).
- Information that appears implausible or inconsistent with the auditor’s understanding and knowledge.
- A change from authorized signatory.
- Electronic documents with a last edited date that is after the date they were represented as finalized.

Paragraph A28

We suggest the following content be included in paragraph A28 to further explain the auditor’s responsibilities for verifying the authenticity of documents or that terms in a document have been modified

but not disclosed to the auditor (such as undisclosed side agreements). Further, we recommend the IAASB consider including these concepts in ISA 500 (Revised) as the audit evidence project is finalized.

A28. **An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as, or expected to be, an expert in such authentication. When the auditor identifies** ~~When conditions are identified~~ that cause the auditor to believe that a record or document may not be authentic, ~~or that terms in a document~~ **may** have been modified but not disclosed to the auditor, **or that undisclosed side agreements may exist, the auditor may determine that additional audit procedures are necessary including audit procedures to evaluate authenticity. Such** possible additional audit procedures to investigate further may include...

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)³ 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 are supportive of how ED-240 builds on ISA 315 (Revised 2019) with incremental requirements to add a fraud lens to risk assessment. However, as stated in Part A of this letter, we continue to have concerns that some auditors may look at these requirements as a separate risk assessment with separate documentation needed. We encourage the IAASB to further clarify in ED-240 which fraud-related risk assessment procedures are truly incremental compared to those that are repeated from other ISAs and emphasize that incremental fraud risk assessment procedures should not be treated as a separate exercise. Rather, they should be integrated into the auditor’s overall risk assessment procedures.

Whistleblower Program

We also encourage the IAASB to consider requiring the auditor to obtain an understanding of an entity’s whistleblower program, if one exists, because of the important role a whistleblower program plays in identifying fraud; and to strengthen the auditor’s procedures relating to the use of internal audit. Accordingly, our suggestions for paragraphs 34, 35, and 36 in this section are of most importance when considering our comments.

Significant Transactions Outside the Normal Course of Business or that Otherwise Appear Unusual

Paragraph 53 of ED-240 includes a requirement that is based on the auditor’s understanding of the entity and its environment and information from other sources obtained during the audit. Specifically, paragraph 53 states

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

“ For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor’s understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.”

This requirement is located under the section “Responses to the Assessed Risks of Material Misstatement Due to Fraud” (see paragraph 53 of ED-240).

To enable the auditor to make such an evaluation, we recommend the IAASB include specific requirements for the auditor to obtain this understanding as part of the auditor’s risk assessment procedures. This will provide the auditor with a basis to help the auditor make the evaluation in paragraph 53. For example, we recommend the IAASB include the following additional requirements:

- Paragraph 34(c) of ED-240 addresses requirements for the auditor to obtain an understanding of the control environment component. In doing so, we believe the auditor should be required to make inquiries of management about whether the entity has entered into any significant transactions outside the normal course of business or that otherwise appear unusual and, if so, the nature, terms, and business purpose (or the lack thereof) of those transactions and whether such transactions involved related parties. This can be placed under paragraph 34(c).
- Paragraph 34(d) of ED-240 requires the auditor to make inquiries of those charged with governance about various matters relating to the control environment. We recommend the IAASB include a new inquiry to those charged with governance about whether the entity has entered into any significant transactions outside the normal course of business or that otherwise appear unusual. This can be placed under paragraph 34(d).
- Paragraph 36(b) of ED-240 addresses requirements for the auditor to obtain an understanding of the entity’s process to monitor the system of internal control component. In doing so, we believe the auditor should be required to make inquiries of appropriate individuals within the internal audit function (if the function exists) to obtain their views about the risks of fraud and to determine whether they are aware that the entity has entered into any significant transactions outside the normal course of business or that otherwise appear unusual. This can be placed under paragraph 36(b). (Also see our other proposed edits to paragraph 36(b) to further strengthen the auditor’s procedures relating to the use of internal audit that is located later in this section.)

Understanding the Components of the Entity’s System of Internal Control

Control Environment

Paragraph 34 and Related Application material

Insights from ASB Outreach Related to Whistleblower Hotlines

The ASB outreach highlighted the importance of whistleblower hotlines in identifying fraud. Further, the findings from the report “Occupational Fraud 2024: A Report to the Nations” issued by the Association of Certified Fraud Examiners (ACFE) highlighted the continued prevalence of the whistleblower tips and complaints as the most common way fraud is detected, accounting for 43% of cases being uncovered. With this in mind, we believe that, for those entities that have a formal whistleblower program, ED-240 should require the auditor to obtain an understanding of the whistleblower program.

See proposed new requirements in paragraph 34(a-1) and (d)(iii) and proposed new application material in paragraph A70 below.

We also recommend that paragraph 34(b)-(d) be clarified to apply when those charged with governance are separate from management.

See proposed changes to paragraph 34(b)-(d) below.

Understanding the Components of the Entity's System of Internal Control

Control Environment

Paragraph 34

34. In applying ISA 315 (Revised 2019),⁴ the auditor shall:

- (a) Obtain an understanding of how management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud. (Ref: Para. A68–A70)

(a-1) If the entity has a whistleblower program, obtain an understanding of the whistleblower program, including:

- (i) **how the program receives and handles matters submitted, including matters relating to fraud**
 - (ii) **the nature of the matters submitted, including matters related to fraud for the period under audit and through the date of the auditor's report**
 - (iii) **how management and those charged with governance address allegations of fraud made through the whistleblower program**
- (b) **When those charged with governance are separate from management, obtain** Obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the controls that management has established to address these risks. (Ref: Para. A71–A74)
 - (c) **When those charged with governance are separate from management, make** inquiries of management regarding management's communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
 - (d) **When those charged with governance are separate from management, make** inquiries of those charged with governance about: (Ref: Para. A75–A78)
 - (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity;

⁴ ISA 315 (Revised 2019), paragraph 21

- (ii) Their views about whether and how the financial statements may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; ~~and~~
- (iii) Whether they have received any tips or complaints regarding the entity's financial reporting process used to prepare the entity's financial statements, including those received through a whistleblower program, if such program exist, and if so, how they have responded to such tips and complaints; and**
- (iv) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.

Paragraph A70

A70. Depending on the nature and circumstances of the entity, the entity may have a formal whistleblower program; ~~In~~ such circumstances, obtaining an understanding of the program may can assist the auditor in identifying risks of material misstatement due to fraud **and may be achieved by:** ~~The auditor may:~~

- Obtaining ing an understanding of the whistleblower program's **process for handling tips or complaints, including how often tips or complaints are reported to entity management and those charged with governance,** reporting mechanisms (e.g., telephone hotline, online forms, or in-person reporting), who is responsible **and whether those charged with governance have oversight** for the program, including who receives the notifications **(that is, which members of management and those charged with governance receive such information)**, and how the entity addresses the matters raised. **The auditor may also want to consider whether there is a pattern of the tips and complaints received.** In a larger or more complex entity, the lack of a whistleblower program, or an ineffective one, may be indicative of deficiencies in the entity's control environment.
- Inspecting ing whistleblower files for any tips or complaints that may allege fraud that are not under investigation by the entity, or for information that may raise questions about management's commitment to creating and maintaining a culture of honesty and ethical behavior.
- Following ing up on matters that are under investigation by the entity as these matters may be indicative of suspected fraud with financial reporting implications that require a response by the auditor.

The whistleblower program may identify matters such as those related to noncompliance with laws and regulations that are not fraud related. ISA 250 (Revised), Consideration Of Laws And Regulations In An Audit of Financial Statements, deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements.

The Entity's Risk Assessment Process

Paragraph 35 and Related Application Material

Paragraph 35(a)

We recommend the IAASB include “and monitors” in paragraph 35(a)(i) referencing the requirement for the auditor to obtain an understanding for how management monitors the entity’s fraud risks. Obtaining an understanding of how management monitors fraud risks sheds light on the prioritization of fraud within the organization, which may directly affect the auditor’s assessment of risk of material misstatement due to fraud.

35. In applying ISA 315 (Revised 2019),⁵ the auditor shall:
- (a) Obtain an understanding of how the entity’s risk assessment process: (Ref: Para. A79–A88)
 - (i) Identifies **and monitors** fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures for which risks of fraud exist;
 - (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and
 - (iii) Addresses the assessed fraud risks

Paragraph 35(b)Insights from ASB Outreach Related to Inquiries of Individuals Outside of the Financial Reporting Process

The ASB outreach underscores the significance of engaging with individuals across the entire organization, rather than limiting inquiries to employees with accounting or financial reporting roles and responsibilities. This approach may allow the auditor to identify additional risks of material misstatement due to fraud. Accordingly, we believe the requirement in paragraph 35(b) should be expanded to specifically include such inquiries and to specifically ask about instances of management override of controls. Further, we are supportive of the guidance contained in paragraphs A89 and A90 that addresses the timing of such communications and highlights performing inquiries of others within the entity. We offer additional suggested content to capture key takeaways from our outreach in paragraphs 35(b), A89 (see Question 10), A90 and new paragraph A90A (see proposed changes that follow.)

We recommend the following changes to paragraph 35(b) as noted previously to capture insights from the ASB’s outreach.

- (b) Make inquiries of management and of other appropriate individuals within the entity, **including personnel not directly involved in the financial reporting process,** about: (Ref: Para. A89–A91)
 - (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and
 - (ii) Their views on whether the financial statements may be materially misstated due to fraud.

⁵ ISA 315 (Revised 2019), paragraph 22

(iii) Whether they are aware of any instances of management override of controls.

Paragraph A90

We believe language should be added to paragraph A90 to underscore the significance of engaging with individuals across the entire organization, rather than limiting interactions solely to management.

A90. Inquiries of management may provide useful information concerning the risks of material misstatements resulting from employee fraud. However, such inquiries are unlikely to provide useful information regarding the risks of material misstatement resulting from management fraud. Inquiries of others within the entity, **in addition to management**, may provide additional insight into fraud prevention controls, tone at the top, and culture of the organization. **Such inquiries may be useful in providing the auditor with a perspective that is different from that of individuals in the financial reporting process. The responses to these other inquiries might serve to corroborate responses received from management or, alternatively, might provide information regarding the possibility of management override of controls. The auditor may also obtain information about how effectively management has communicated standards of ethical behavior throughout the organization.**

New Paragraph A90A

We also encourage the IAASB to include the following application material related to fraud inquiries. The ASB's outreach (see part A of this letter) highlights that conducting fraud inquiries in person significantly enhances their effectiveness. This approach provides auditors with the valuable ability to observe body language, which can reveal crucial insights. Furthermore, receiving written responses in advance empowers management to compile all relevant information while also allowing auditors the opportunity to prepare targeted follow-up questions. Therefore, we believe incorporating this into application material will increase the likelihood of auditors implementing these good practices.

A90A. Inquiries of management and others within the entity are generally most effective when they involve an in-person discussion. The auditor may also determine it useful to provide the interviewee with specific questions and obtain written responses in advance to facilitate the discussion.

The Entity's Process to Monitor the System of Internal Control

Paragraphs 36 and Related Application Material

Paragraph 36

As noted in our comments relating to paragraph 34 of ED-240, the findings from the report "Occupational Fraud 2024: A Report to the Nations" issued by the ACFE highlighted the continued prevalence of the whistleblower tips and complaints as the most common way fraud is detected, accounting for 43% of cases uncovered. This was followed closely by internal audit processes as the second most common detection method. With this in mind, we believe that certain application material in paragraph A94 should be elevated

to the requirement in paragraph 36 to strengthen the auditor’s procedures relating to the use of internal audit. We suggest the following changes to paragraphs 36(b) and A94.

36. In applying ISA 315(Revised 2019),⁶ the auditor shall:
- (a) ...
 - (b) Make inquiries of appropriate individuals within the internal audit function (if the function exists) about whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity ~~and to~~ obtain their views about the risks of fraud, **and to determine whether:**
 - (i) they have performed any procedures to identify, detect, or investigate fraud during the year;**
 - (ii) they believe management has satisfactorily responded to any findings resulting from these procedures; and**
 - (iii) they are aware of any instances of management override of controls.** (Ref: Para. A93-A94)

Paragraph A94

A94. ISA 315 (Revised 2019) and ISA 610 (Revised 2013) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function.⁷

Examples:

In applying ISA 315 (Revised 2019) and ISA 610 (Revised 2013) in the context of fraud, the auditor may, for example, inquire about:

- The entity’s fraud risk assessment.
- The entity’s controls to prevent or detect fraud.
- The entity’s culture and management’s commitment to integrity and ethical values.
- ~~• Whether the internal audit function is aware of any instances of management override of controls.~~
- ~~• The procedures performed, if any, by the internal audit function during the year to detect fraud and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures.~~
- The procedures performed, if any, by the internal audit function in investigating frauds and suspected violations of the entity’s code of ethics and values, ~~and whether management and those charged with governance have satisfactorily responded to any findings resulting from those procedures.~~
- ...

⁶ ISA 315 (Revised 2019), paragraph 24

⁷ ISA 315 (Revised 2019), paragraphs 14(a) and 24(a)(ii), and ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

While we find the suggestions related to paragraphs 34, 35, and 36 to be of most importance for this question as stated previously, we also encourage the IAASB to make the following revisions:

Risk Assessment Procedures and Related Activities

Engagement Team Discussion

Paragraph 29 and Related Application Material

Paragraph 29

We recommend including additional requirements relating to the exchange of ideas as part of the engagement team discussion. Some of these items relate to content from extant ISA 240 application material. While some of this content may have been retained in ED-240, it has been moved so that it is no longer included within the context of the engagement team discussion. We believe it is important to require these topics be discussed as part of the brainstorming session to encompass a dialogue focused on entity-specific red flags and to emphasize the importance of maintaining professional skepticism. This could improve the engagement team's ability to identify fraud risk factors and better identify risks of material misstatement due to fraud. We believe making this revision could improve the auditor's consideration of fraud, ultimately strengthening the overall audit process.

29. In applying ISA 315 (Revised 2019),⁸ when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include: (Ref: Para. A48–A49 and A53)

(a) An exchange of ideas **or brainstorming among the engagement team members** about:

- (iv) The entity's culture, management's commitment to integrity and ethical values and related oversight by those charged with governance; (Ref: Para. A50)
- (v) Fraud risk factors, including: (Ref: Para. A51–A52)
 - a. Incentives or pressures on management, those charged with governance, or employees to commit fraud;
 - b. How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting, **including consideration of circumstances that might be indicative of manipulation of earnings or of other financial measures and the practices that might be followed by management to manipulate earnings or other financial measures that could lead to fraudulent financial reporting**; ~~and~~
 - c. **The risk of management override of controls; and**
 - d. How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties.

⁸ ISA 315 (Revised 2019), paragraphs 17 and A42-A43

(b) The importance of maintaining professional skepticism throughout the audit regarding the potential for material misstatement due to fraud [moved here from the first bullet of paragraph A53 of ED-240]

(c) How the auditor might respond to the susceptibility of the entity's financial statements to material misstatement due to fraud [moved here from the last bullet of paragraph A53 of ED-240]

(d) A consideration of any fraud or suspected fraud, including allegations of fraud, that may impact the overall strategy and audit plan, including fraud that has occurred at the entity during the current or prior years **periods**.

29A. Communication among the engagement team members about the risks of material misstatement due to fraud should continue throughout the audit, particularly upon discovery of new information during the audit.

Insights from ASB Outreach Related to Engagement Team Discussion

Outreach performed by the ASB (see part A of this letter) highlights the importance of the engagement team discussion. We believe that elevating the proposed items in paragraphs 29 and 29A (as noted previously) will enhance the engagement team discussions and help the engagement team to better focus on fraud. Requiring the engagement partner or other key engagement team members to reinforce the importance of exercising professional skepticism during the engagement team discussion is a best practice.

Further, we are supportive of the guidance in paragraphs A49, A51, A52 and A53 as these matters were acknowledged in the ASB outreach. In particular,

- Paragraph A49 - the outreach highlighted the need to use individuals with proper skills on the audit and therefore we support the guidance in paragraph A49 relating to using individuals with specialized skills to be included in the engagement team discussion.
- Paragraph A51 – the outreach indicated that the use of audit data analytics may be helpful as it relates to fraud. Therefore, in principle we support the guidance in paragraph A51, but suggest that the IAASB consider technology-related content within ED-240 more holistically (see proposed edits to paragraph A51 that follow).
- Paragraph A52 – the outreach indicated that being aware of management's major life events may indicate a red flag. While we believe that the auditor's awareness of unusual or unexplained changes in management's lifestyle is important to include in the engagement team discussion, we also believe it should be limited to when those matters come to the auditor's attention – that is, the auditor is not responsible for investigating management's lifestyle. Accordingly, we support the guidance in paragraph A52 for the engagement team discussion to exchange ideas about any unusual or unexplained changes in behavior or lifestyle of management or employees that have **come to the attention of the engagement team**.
- Paragraph A53 - the ASB outreach showed that there is a need for further examples to help auditors think about how to be unpredictable in the audit and therefore we support the guidance in paragraph A53 relating to including unpredictability in the audit and recommend including a

reference to Appendix 2, which includes examples that include unpredictability (see proposed edits to paragraph A53 that follow).

Paragraph A51

As stated previously in Part A of this letter, we recommend the IAASB keep the ISAs principles-based and create a separate technology addendum as part of the IAASB's Technology Position Initiative. However, if the IAASB decides to continue including technology-related application material within ED-240, we encourage the IAASB in paragraph A51 to further highlight the use of automated tools and techniques to identify fraud risk factors and how the results should be discussed during the engagement team discussion. We also believe paragraph A51 should note that the benchmarking may also indicate unusual relationships within the entity's current period data and that adverse ratios or trends may also be compared to the entity's past performance.

A51. ...

- Automated tools and techniques – these may be used to support the discussion about the susceptibility of the entity's financial statements to material misstatement due to fraud, **and in the identification of fraud risk factors**, including techniques that further the understanding of incentives and pressures, such as industry or sector financial ratio benchmarking, which may indicate **unusual relationships within the entity's current period data (e.g. financial and operating data) and** adverse ratios or trends compared to competitors **or the entity's past performance**.

Paragraph A53

The ASB outreach showed that there is a need for further examples to help auditors think about how to be unpredictable in the audit. We recommend including a reference to Appendix 2 in paragraph A53 to point the auditor to examples of audit procedures that incorporate an element of unpredictability. Further, as stated previously, we recommend moving the first bullet from application material to the requirement in paragraphs 29(b) and (c).

A53. The engagement partner and other key engagement team members participating in the engagement team discussion may also, as applicable, use this as an opportunity to:

- ~~Emphasize the importance of maintaining a questioning mind throughout the audit regarding the potential for material misstatement due to fraud.~~ [moved to paragraph 29(b) of ED-240]
- Remind engagement team members of their role in serving the public interest by performing quality audit engagements and the importance of engagement team members remaining objective in order to better facilitate the critical assessment of audit evidence obtained from persons within or outside the financial reporting or accounting functions, or outside the entity.
- **When discussing how the auditor might respond to the susceptibility of the entity's financial statements to material misstatement due to fraud as required by paragraph 29(c),** consider the audit procedures that may be selected to respond appropriately to the susceptibility of the entity's financial

~~statements to material misstatement due to fraud~~, including whether certain types of audit procedures may be more effective than others and how to incorporate an element of unpredictability into the nature, timing and extent of audit procedures to be performed. **Appendix 2, Examples of Possible Audit Procedures to Address the Risks of Material Misstatement Due to Fraud, contains some examples of procedures that include an element of unpredictability.**

Inquiries of Management and Inconsistent Responses

Paragraph 30 and New Paragraph A53A

Paragraph 30

We believe the requirement in paragraph 30 should be expanded to also include responses that are otherwise unsatisfactory, and not just inconsistent, and that new application material (new paragraph A53A) should explain what is meant by unsatisfactory responses. Inclusion of this language is important because inconsistent responses to inquiries may not be the sole indicators of fraud. It is essential to recognize that other unsatisfactory responses, such as vagueness and implausibility, could also signal management's attempt to conceal fraud. Omitting this language may result in auditors accepting unsatisfactory responses merely because they were not directly contradictory.

Inquiries of Management and Inconsistent Responses

30. In applying ISA 500,⁹ if the responses to management, those charged with governance, individuals within the internal audit function, or others within the entity, are inconsistent with each other **or otherwise unsatisfactory**, the auditor shall: **(Ref: Para. A53A)**

- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the **matter** inconsistency; and
- (b) Consider the effect, if any, on other aspects of the audit.

Paragraph A53A

A53A. Unsatisfactory responses to inquiries may include vagueness and implausibility.

Analytical Procedures Performed and Unusual or Unexpected Relationships Identified

New Paragraphs A54A-1 to A54A-3 Related to Paragraph 31

New Paragraphs A54A-1 to A54A-3

We strongly encourage the IAASB to include the following application material relating to analytical procedures to follow paragraph A54 (linked to paragraph 31) to further explain how data analysis techniques may be used when performing analytical procedures.

A54A-1. Analytical procedures may include data analysis techniques ranging from a high-level review of data patterns, relationships, and trends to highly sophisticated,

⁹ ISA 500, paragraph 11

technology-assisted analysis of detailed transactions using electronic tools, such as data mining, business intelligence, and file query tools. The degree of reliance that can be placed on such techniques is a function primarily of the source (for example, financial, nonfinancial), completeness and reliability of the data, the level of disaggregation, and the nature of the analysis.

A54A-2. Analytical procedures relating to revenue that are performed with the objective of identifying unusual or unexpected relationships that may indicate a material misstatement due to fraudulent financial reporting may include

- a. a comparison of sales volume, as determined from recorded revenue amounts, with production capacity. An excess of sales volume over production capacity may be indicative of recording fictitious sales.**
- b. a trend analysis of revenues by month and sales returns by month, during and shortly after the reporting period. This may indicate the existence of undisclosed side agreements with customers involving the return of goods, which, if known, would preclude revenue recognition.**
- c. a trend analysis of sales by month compared with units shipped. This may identify a material misstatement of recorded revenues.**

A54A-3. Analytical procedures performed during planning may be helpful in identifying the risks of material misstatement due to fraud. However, if such analytical procedures use data aggregated at a high level, generally the results of those analytical procedures provide only a broad initial indication about whether a material misstatement of the financial statements may exist. Accordingly, the results of analytical procedures performed during planning may be considered along with other information gathered by the auditor in identifying the risks of material misstatement due to fraud.

Insights from ASB Outreach Related to the Use of Data Analysis Techniques

As discussed with paragraph A51, the ASB outreach indicated that the use of audit data analytics may be helpful as it relates to fraud and therefore, we believe that further guidance in the application material would be helpful (as suggested previously by including new paragraphs A54A-1 to A54A-3).

Evaluation of Fraud Risk Factors

Application Material Related to Paragraph 32

Paragraph A56

We encourage the IAASB to clarify that the inability to observe one or more of the conditions listed in paragraph A56 as conditions that are generally present when fraud exists does not necessarily mean that no risk of material misstatement due to fraud exists. Such clarification may enhance the auditor's professional skepticism and is an important reminder.

A56. Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in Appendix 1. These illustrative fraud risk

factors are classified based on the three conditions that are generally present, individually or in combination, when fraud exists:

- An incentive or pressure to commit fraud;
- A perceived opportunity to commit fraud;~~and~~
- An ability to rationalize the fraudulent action.

The inability to observe one or more of these conditions does not necessarily mean that no risk of material misstatement due to fraud exists.

Fraud risk factors reflective of an attitude...

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control

Understanding the Entity and its Environment, and the Applicable Financial Reporting Framework

Application Material Related to Paragraph 33

Paragraph A63

We recommend the following revisions be made to the application material in paragraph A63 to expand upon why it is important for the auditor to understand the industry in which the entity operates. Further, the examples in the bullet speak about creating “opportunities” to commit fraud and not “incentives” and therefore the first bullet should be changed to align with the example.

Industry (Ref: Para. 33(a)(ii))

A63. Understanding the industry in which the entity operates assists the auditor in identifying fraud risk factors. **The entity may operate in an industry that may be susceptible to fraud, or other illegal or unethical acts that may be carried out to facilitate or conceal fraud. For example, the** The auditor may obtain an understanding **about** whether the entity **operates** ~~is active~~ in:

- An industry where there are greater **opportunities**~~incentives~~ to commit fraud. (e.g., in the construction industry the revenue recognition policies may be complex and subject to significant judgment which may create an opportunity to commit fraud).
- An industry that is under pressure (e.g., a high degree of competition or market saturation, accompanied by declining margins in that sector). Such characteristics may create an incentive to commit fraud as it may be harder to achieve the financial performance targets.

Control Activities

Paragraph 38 and Related Application Material

Paragraph 38

We recommend the following revisions be made to paragraph 38 to further clarify that identified risks of material misstatement due to fraud are treated as significant risks and therefore the auditor is required to evaluate its design and determine whether the controls have been implemented (D&I) in accordance with

ISA 315 (Revised). There is often confusion relating to when the auditor is required to perform D&I and these proposed revisions will help to clarify this point for auditors.

38. In applying ISA 315 (Revised), the auditor's understanding of the entity's control activities **component** shall include identifying controls that address risks of material misstatement due to fraud at the assertion level,^{FN} including controls over journal entries, designed to prevent or detect fraud; **evaluating whether the controls are designed effectively; and determining whether the controls have been implemented.**

^{FN} As noted in paragraphs 40(b) and 42 of ED-240, risks of material misstatement due to fraud are treated as significant risks.

Paragraph A98

We encourage the IAASB to retain the following application material from extant ISA 240 and place it in paragraph A98. Incorporating this language provides further clarity about why management may conclude not to implement and maintain certain controls and highlights the importance for the auditor to obtain an understanding of management's controls relating to fraud.

A98. Management may make judgments on the nature and extent of the controls it chooses to implement and the nature and extent of the risks it chooses to accept given the nature and circumstances of the entity. In determining which controls to implement to prevent or detect fraud, management considers the risks that the financial statements may be materially misstated due to fraud. **As part of this consideration, management may conclude that it is not cost effective to implement and maintain a particular control in relation to the reduction in the risks of material misstatement due to fraud to be achieved. For example, the auditor may learn that management has consciously chosen to accept the risks associated with a lack of segregation of duties.**

Paragraph A106

We also encourage the IAASB to remove the reference to public sector entities in paragraph A106. Because this guidance is equally true for all entities, removing the reference to public sector entities helps to avoid the misconception that misappropriation of assets is specific to public sector entities. If paragraph A106 is retained for public sector entities, we request the IAASB further expand upon why this is of particular relevance to those entities.

~~Considerations Specific to Public Sector Entities~~

~~A106. For public sector entities, misappropriation of assets (i.e., misappropriation of funds) may be a common type of fraud...~~

Presumption of the Risks of Material Misstatement Due to Fraud in Revenue

Paragraph 41 and Related Application Material

We believe paragraph 41 is not appropriate for many public sector entities, as generally these entities' transactions consist primarily of expenditures rather than earned revenues. We suggest that the IAASB

add an additional application material paragraph under the heading “Considerations Specific to Public Sector Entities” as follows:

A112A. In the public sector, there may be fewer incentives or pressures to engage in fraudulent financial reporting by intentionally overstating or understating revenue. In public sector entities, there may be more fraud risks related to expenditures, especially when such expenditures are subject to statutory limits.

Other Paragraphs

Please see our response to question 10 for comments that are more editorial in nature related to paragraphs A71 (par. 34) , A75 (par. 34), A89 (par. 35), 39, and 40.

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: [Disagree, with comments below](#)

Detailed comments (if any):

Fraud or Suspected Fraud

We understand the IAASB’s desire to include requirements in ED-240 (paragraphs 55-59 of ED-240) to enhance the auditor’s responsibilities when fraud or suspected fraud is identified beyond the requirements that currently exist, given that auditors may look to ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, the IESBA Code of Ethics for Professional Accountants, and other regulatory requirements (such as, section 10A of the United States Securities Exchange Act of 1934) for guidance. While we support the intent of these requirements, we are concerned that the requirement in paragraph 55 of ED-240 is not scalable. It is unclear from the explanatory memorandum as to the intent of paragraph 55 and whether each element of the requirement needs to be applied for every identified fraud or suspected fraud, including those that are clearly inconsequential. We believe that paragraph 55 of ED-240 could result in an onerous and unnecessary work effort by the auditor on matters that are clearly inconsequential. Directing resources to areas of remote risk of material misstatement to the financial statement is contrary to the risk-based audit approach that underpins ISA 315 (Revised 2019) and ISA 330, *The Auditor’s Responses to Assessed Risks*. This could negatively affect audit quality by unnecessarily diverting the auditor’s attention from higher risk areas. We encourage the IAASB to better clarify the auditor’s responsibilities in ED-240 in such circumstances.

We believe that the phrase “the auditor identifies fraud or suspected fraud” may be misunderstood by auditors, irrespective of the key concepts described in paragraph 7. As drafted, the phrase could be interpreted to apply to those fraud matters that have been identified specifically by the auditor and would not include other ways in which the auditor becomes aware of fraud or suspected fraud. Accordingly, we recommend adding to paragraph 55 (and other paragraphs throughout ED-240, as necessary) the phrase

“or otherwise become aware of” to clarify and reinforce the scope of the performance requirements in paragraph 55.

We believe that the auditor’s work effort should align with the IESBA code requirements as it relates to fraud. Paragraph 14 of ED-240 states that “For the purposes of this and other relevant ISAs, fraud constitutes an instance of non-compliance with laws and regulations.” Section R360.7 A2 of the IESBA code states the following:

360.7 A2 A professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

Section R360 of the IESBA code states the following:

R360.10 If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

Accordingly, we recommend the following changes be made to the requirements in paragraph 55 to better align with the IESBA Code and to better reflect the auditor’s work effort based on the nature of the fraud. That is, the auditor may not need to perform all of the procedures in paragraph 55 to obtain an understanding of the identified fraud or suspected fraud, sufficient to conclude on next steps, based upon the significance of the identified fraud or suspected fraud (i.e., scalability based on the nature and significance of the identified fraud or suspected fraud).

We recommend the requirements in paragraph 55(b) and (c) be combined and revised to use plain English to explain what the auditor’s work effort should be because it was unclear what was meant by the entity’s process.

Further we recommend that the requirement in paragraph 55(d) be revised from “determine” to “consider” because the auditor may not have enough information to make a determination about whether a control deficiency exists related to the fraud or suspected fraud.

We have concerns about whether the requirement in paragraph 56(a)(iii) is operable in many group audit situations. Paragraph 56(a)(iii) requires the engagement partner to determine whether there are additional responsibilities under, law, regulation, or relevant ethical requirements about the entity’s non-compliance with laws or regulations in accordance with ISA 250. It is important for the standard to permit the engagement partner to use information and resources from the firm or other members of the engagement team when making such determinations. We ask the IAASB to consider whether clarification is needed in paragraph 56 to clarify the engagement partner’s responsibilities or whether the requirement should be for the engagement partner to “take responsibility” for this requirement.

Paragraph 55 and Related Application Material

Paragraph 55

55. If the auditor identifies **or otherwise becomes aware of** fraud or suspected fraud, the auditor shall obtain an understanding of the **nature and circumstances of the** matter in

order to determine the effect on the audit engagement. In doing so, the auditor shall: (Ref: Para. A146–A151)

- (a) Make inquiries about the ***nature and circumstances of the matter and how management has responded to the matter*** with a level of management that is at least one level above those involved and, when appropriate in the circumstances, make inquiries about the matter with those charged with governance;
- (b) If the results of the procedures in paragraph (a) indicate the matter is other than clearly inconsequential, the auditor shall:***
 - (i) (b) evaluate how management has responded to the matter, including the nature and status of the investigations and remediation measures management has taken or plans to take*** ~~If the entity has a process to investigate the matter, evaluate whether it is appropriate in the circumstances~~
 - ~~(c) If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances; and~~
 - (ii) (d) Consider*** ~~Determine~~ whether control deficiencies ***may*** exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud

Paragraph A147

We believe it would be helpful if the examples in paragraph A147 provide further insights into how the engagement partner made the determination that a matter did not give rise to the need for additional risk assessment procedures.

Impact on the Overall Audit Strategy

Application Material Related to Paragraph 56

Paragraph A153

As drafted, paragraph A153 implies that the auditor may issue an unmodified opinion if an extension of time to file is not possible under applicable law or regulation. If the auditor is unable to conclude whether the financial statements are materially misstated as a result of the fraud, the auditor may have a limitation on the scope of the audit and should determine the implications for the auditor’s opinion. We believe that the discussion in paragraph A153 is one possible situation and others may exist. Therefore, we recommend the following changes be made to refer to AU-C section 705.

A153. Based on the understanding obtained about the fraud or suspected fraud and the impact on the overall audit strategy, the engagement partner may determine that it is necessary to discuss an extension of the audit reporting deadlines with management and those charged with governance, where an extension is possible under applicable law or regulation. ***If an extension is not possible, ISA 705 (Revised) deals with the implications for the auditor’s opinion on the financial statements.***

Communications with Management and Those Charged with Governance

Communication with Those Charged with Governance

Application Material Related to Paragraph 68

Paragraph A187

We encourage the IAASB to include a reminder in paragraph A187 for the auditor to discuss with those charged with governance when the entity does not have controls to address risks of material misstatement due to fraud when those matters are considered significant deficiencies.

Other Matters Related to Fraud (Ref: Para. 68)

A187. **In accordance with ISA 265, the auditor is required to communicate with those charged with governance significant deficiencies in internal control identified during the audit.¹⁰ This includes the absence of controls to address risks of material misstatement due to fraud when those matters are determined to be significant deficiencies.** Other matters related to fraud to be discussed with those charged with governance of the entity may include, for example:

- Concerns about the nature, extent, and frequency of management's assessments of the controls in place to prevent or detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to appropriately address identified significant deficiencies in internal control, or to appropriately respond to an identified fraud.
- The auditor's evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Other Paragraphs

Please see our response to question 10 for comments that are more editorial in nature related to paragraphs A146 (par. 55), 149 (par. 55), A150 (par. 55), A151 (par. 55), and A155 (par. 56)

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?

¹⁰ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

(See EM, Section 1-H, paragraphs 58–78)

(See ED, paragraphs 61–64)

Overall response: Disagree, with comments below

Detailed comments (if any):

The ASB continues to believe that any changes to the auditor’s report should enhance the information provided and address the expectation gap between financial statement users and auditors; enhance audit quality; and establish reporting requirements that are also clear with regard to management’s responsibility as the original source of entity-specific information. Our comments have been developed with these principles in mind.

We recognize the effectiveness of providing a fraud lens to using KAMs to communicate fraud-related matters. By using the KAM model the proposed requirements in ED-240 would be required for listed entities only. Because our purview is limited to audits of nonissuers, our response to this question does not address transparency matters related to listed entities. It is important to note that in the U.S., KAMs are not required nor has there been a call for KAMs to be included in the reports of nonissuers.

We are concerned that requiring KAMs for specific topics, irrespective of whether they genuinely represent key aspects of the audit, lacks usefulness and diminishes the overall purpose of KAMs. Moreover, we disagree with requiring a statement in the auditor’s report that no fraud KAMs were identified because such a statement may be misunderstood by financial statement users as providing an opinion specifically related to fraud.

If the IAASB proceeds with specific requirements for reporting fraud-related KAMs, we believe such requirements are better placed in ISA 701, rather than ED-240, to streamline the reporting process and ensure consistency across audit engagements. Further, it will reduce confusion about whether a separate assessment for fraud-related KAMs is required; rather, it should be integrated into the auditor’s overall consideration of KAMs. Therefore, we recommend removing paragraphs 61-64 and its related application material from ED-240 and moving the requirements and application material into ISA 701 and refer users to ISA 701 in proposed ISA 240(Revised). For example, the matters related to fraud in paragraph 61 of ED-240 could be incorporated into paragraph 9 of ISA 701.

Given other current IAASB projects that propose revisions to the auditor’s report (i.e. going concern and public interest entities (PIE)), we encourage the IAASB to undertake a project to holistically evaluate the cumulative impact and usefulness of all proposed changes to the auditor’s report. One of the more effective ways of doing this is to work with experts who can assist the IAASB with performing a “controlled language experiment” to evaluate the potential effects of the proposed changes in the auditor’s report. This outreach will provide important insights into whether the proposed changes are likely to achieve their intended objectives. The ASB has gained significant experience with this type of research over the past year and we would be pleased to share our experiences with the IAASB.

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: [Disagree, with comments below](#)

Detailed comments (if any):

As stated in our PIE Track 2 comment letter, while we appreciate the IAASB's endeavors to improve transparency, we question whether the requirement to communicate KAMs, including those related to fraud, would uniformly benefit all entities categorized as PIEs (particularly non-listed entities considered to be PIEs). The value derived from KAMs may differ significantly based on an entity's specific circumstances of it being treated as a PIE. For example, KAM reporting may not be particularly useful for owner-managed businesses, where stakeholders already have regular interactions with auditors. The potential benefits of KAMs for not-for-profit entities may not justify the associated costs, in particular taking into account the significant investment to methodologies and tools that firms which do not communicate KAMs today would be required to make.

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: [Disagree, with comments below](#)

Detailed comments (if any):

We encourage the IAASB to expand the requirement in paragraph 54 to require the auditor to evaluate, at or near the end of the audit, the accumulated results of all auditing procedures, not solely analytical procedures.

Evaluation of Accumulated Results and Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion

54. In applying ISA 520,³² ~~the~~ ***evaluate at or near the end of the audit, whether the accumulated results of auditing procedures (including determine whether the results of analytical procedures that were are performed as substantive tests or when forming an overall conclusion) affect the assessment of the risks of material misstatement due to fraud made earlier in the audit or near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. If not already performed when forming an overall conclusion, the analytical procedures relating to revenue, required by paragraph 29(b), shall be performed through the end of the reporting period.*** (Ref: Para. A142–A143)

Aside from our recommended revisions to paragraph 54, we believe the stand-back requirements within other ISAs are sufficient. However, we recommend the IAASB reference the ISA 330 stand-back in ED-240's application material (similar to what was initially included in the December 2023 IAASB meeting materials), serving as a reminder to auditors about the requirement to re-evaluate the sufficiency and appropriateness of audit evidence while also encouraging them to perform these procedures with a fraud lens.

Evaluation of the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. XX)

AXXX. ISA 330 requires the auditor, based on the audit procedures performed and the audit evidence obtained, to evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate.¹¹ This evaluation is primarily a qualitative matter based on the auditor's judgment. Such an evaluation may provide further insights about the risks of material misstatement due to fraud and whether there is a need to perform additional or different audit procedures.

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: Neither agree/disagree, but see comments below

Detailed comments (if any):

As previously stated in our response to question 4, we have concerns about the scalability of the requirements in paragraph 55 when an identified fraud is inconsequential and ask the IAASB to consider providing additional guidance to better explain the auditor's responsibilities. Additionally, we recommend adding the following paragraph after the "Scope of this ISA" section of ED-240 to improve scalability:

Nature of Fraud

1A. Although this section applies to all fraud, including misappropriation of assets and fraudulent financial reporting, the nature, timing, and extent of the risk assessment and further audit procedures performed in accordance with this ISA may vary in relation to the type of fraud and the assessment of the related risks of material misstatement. For certain frauds, the risk assessment procedures and further audit procedures required by this ISA would not be expected to be extensive. When a fraud risk is identified, the complexity and risk of material misstatement due to the fraud is high, and therefore procedures to respond to the assessed risk would be expected to be more extensive. This ISA contains guidance on how the requirements of this section can be scaled.

¹¹ ISA 330, paragraph 25

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,¹² ISA 220 (Revised),¹³ ISA 315 (Revised 2019), ISA 330,¹⁴ ISA 500,¹⁵ ISA 520,¹⁶ ISA 540 (Revised)¹⁷ and ISA 701¹⁸) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

Overall, we believe ED-240 has the appropriate linkages to other ISAs. However, as stated in our response to question 5, we believe the requirements and application material relating to fraud KAMs should be moved to ISA 701 and retain the linkage from ED-240 to ISA 701.

As stated in our response to part A and question 3 of this letter, we are concerned that the linkages between ED-240 and ISA 315 (Revised 2019) might inadvertently lead auditors to duplicate risk assessment procedures and related documentation. We encourage the IAASB to further clarify in ED-240 which fraud-related risk assessment procedures are truly incremental compared to those that are repeated from other ISAs and emphasize that incremental fraud risk assessment procedures should be integrated into the auditor's overall risk assessment procedures. Additionally, we recommend the IAASB update the Nonauthoritative Guidance on Fraud in an Audit of Financial Statements "[The Fraud Lens — Interactions Between ISA 240 and Other ISAs](#)" issued in May 2022 to better explain the linkages between ED-240 and other ISAs (in particular, ISA 315 (Revised 2019)). One way in which to help practitioners understand and apply the "fraud lens" when performing risk assessment procedures may be to illustrate the linkages similar to the flowchart in [ISA 540 \(Revised\) Implementation Tool](#). Please see the appendix "Linkages Between ISA Risk Assessment Requirements and ED-240" at the end of this comment letter as a possible way to illustrate such links.

Additionally, as noted in our response to question 7, we recommend that ED-240 link to the stand back provision in ISA 330. This linkage will serve as a reminder to auditors about the requirement to re-evaluate the sufficiency and appropriateness of audit evidence while also encouraging them to perform these procedures with a fraud lens.

¹² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

¹³ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

¹⁵ ISA 500, *Audit Evidence*

¹⁶ ISA 520, *Analytical Procedures*

¹⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

¹⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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):

In addition to our responses to questions 1 through 9, we also suggest the following revisions to ED-240. The following comments are designated as “**Recommended Change**” for those more significant comments or “Suggested Edit” for those comments that are more editorial in nature.

Application Material Related to Paragraph 5

Suggested Edit: Paragraph A3

We encourage the IAASB to replace “manage earnings” with “manipulate earnings” within paragraph A3. We believe that the term “manipulate” has the connotation of “intent” while managing earning is not necessarily fraudulent in nature. Therefore, we recommend the IAASB consider replacing “manage” with “manipulate” throughout ED-240.

A3. Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. It can be caused by the efforts of management to manipulate manage earnings to deceive financial statement users by influencing...

Suggested Edit: Paragraph A5

We also encourage the IAASB to make the following revision within paragraph A5 for consistency with ISA 315 (Revised 2019) when using “ineffective” as it relates to controls rather than “inadequate”:

A5. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as intentionally:

...

- Taking advantage of **ineffectively designed** inadequate information processing controls in information technology (IT) applications, including controls over and review of IT application event logs (e.g., modifying the application logic, or where users can access a common database using generic access identification, or modify access identification, to conceal activity).

Suggested Edit: Paragraph 6

We recommend the following revisions be made to paragraph 6 for consistency in how ED-240 refers to fraud and suspected fraud. The language “the occurrence of fraud” is not used elsewhere in ED-240 and creates confusion about whether it means something different from when the auditor identifies fraud or suspected fraud.

Fraud or Suspected Fraud

6. Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements—due to fraud. Although the auditor may identify **fraud** or suspect **fraud** the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations **about** whether fraud has actually occurred.

Definitions

Recommended Change: Paragraph 18 and Related Application Material

Paragraph 18

The definition of *fraud risk factors* in paragraph 18 of ED-240 omits the rationalization element of the fraud triangle. We strongly recommend including rationalization into the definition of fraud risk factors in paragraph 18 of ED-240 to emphasize each of the three components—opportunity, incentive, and rationalization—that may indicate a fraud risk factor exists.

Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, **or indicate attitudes or rationalizations to justify a fraudulent action.** (Ref: Para. A22–A23)

Recommended Change: Paragraph A18

We suggest adding the following language to the application material in paragraph A18 to explicitly state that not every instance of non-compliance with laws and regulations is considered fraud, to help mitigate the risk of the auditor misapplying ED-240 and ISA 250

A18. Depending on the nature and circumstances of the entity, certain laws, regulations or aspects of relevant ethical requirements dealing with corruption, bribery or money laundering may be relevant to the auditor’s responsibilities to consider laws and regulations in an audit of financial statements in accordance with ISA 250 (Revised).¹⁹ **As discussed in paragraph 14, fraud constitutes an instance of non-compliance with laws and regulations. It is important to note that not every instance of noncompliance with laws and regulations is considered fraud.**

Recommended Change: Paragraph A21

We also recommend adding the following language to the application material in paragraph A21 to reinforce that the auditor is only concerned with third-party fraud that is directly related to a risk of material misstatement due to fraud in the financial statements. This aligns with the content in paragraph 6 of ED-240 and is also discussed in paragraph 92 of the explanatory memorandum.

Third-Party Fraud (Ref: Para. 18(a))

¹⁹ ISA 250 (Revised), paragraphs 6 and A6

A21. Fraud as defined in paragraph 18(a) can include an intentional act by a third party. Fraud or suspected fraud committed against the entity by customers, suppliers, service providers, or other external parties is generally described as third-party fraud. **With regard to third-party fraud, the auditor is concerned with third-party fraud that is directly related to a risk of material misstatement due to fraud in the financial statements.**

Recommended Change: Paragraph A22

We recommend adding “or an ability to rationalize the fraudulent action” to paragraph A22 to capture the conditions that are generally present when fraud exists.

Fraud Risk Factors (Ref: Para. 18(b) and 32)

A22. Fraud risk factors may relate to incentives, pressures or opportunities that arise from events or conditions that create susceptibility to misstatement, before consideration of controls **or an ability to rationalize the fraudulent action**. Fraud risk factors, which include intentional management bias, are, insofar as they affect inherent risk, inherent risk factors. Fraud risk factors may also relate to events or conditions that may exist in the entity’s system of internal control that provide an opportunity to commit fraud and may be an indicator that other fraud risk factors are present.

Engagement Resources

Paragraph 22 and Related Application Material

Recommended Change: Paragraph 22

We recommend adding the following language to paragraph 22 to align with the wording in ISA 220 and provide context to what is meant by “collectively”.

22. In applying ISA 220 (Revised),²⁰ the engagement partner shall determine that members of the engagement team **and any auditor’s external experts and internal auditors who provide direct assistance who are not part of the engagement team** collectively have the appropriate competence and capabilities, including sufficient time and appropriate specialized skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained. (Ref: Para. A33–A36)

Recommended Change: Paragraph A34

We recommend the following revisions to application paragraph A34 to better clarify that in certain cases the auditor may want to include an individual with forensic skills to assist in planning and performing audit procedures. We believe this wording more clearly describes the intent of when to use forensic skills in the audit. Further, we recommend the example relating to noncompliance with laws and regulations (NOCLAR) be removed from the second bullet. Examples in the application material to ED-240 should be specific to

fraud so as not to conflate the auditor's responsibilities under ED-240 and ISA 250. This is important because not every NOCLAR is fraud. Additionally, our proposed edits to the third and fifth bullets clarify that they are addressing fraudulent financial reporting.

A34. The nature, timing, and extent of the involvement of individuals with specialized skills or knowledge, such as forensic and other experts, or the involvement of more experienced individuals, may vary based on the nature and circumstances of the audit engagement.

Examples:

- The entity is investigating fraud or suspected fraud that may have a material effect on the financial statements (e.g., when it involves senior management). **In certain cases, the auditor may want to include an** An individual with forensic skills **to** may assist in planning and performing audit procedures as it relates to the specific audit area where the fraud or suspected fraud was identified.
- The entity is undergoing an investigation by an authority outside the entity for fraud or suspected fraud, ~~or for instances of non-compliance or suspected non-compliance with laws and regulations~~ (e.g., materially misstated tax provision related to tax evasion ~~and materially misstated revenues due to such revenues being generated from illegal activities facilitated through money laundering~~). Tax and ~~anti-money laundering~~ experts may assist with identifying those fraudulent aspects of the non-compliance or suspected non-compliance that may have a financial statement impact.
- The complexity of the entity's organizational structure and related party relationships, including the creation or existence of special purpose entities, may present an opportunity for management to **fraudulently** misrepresent the financial position or financial performance of the entity. ~~For example, a~~An expert in taxation law may assist in understanding the business purpose and activities or business units within complex organizations, including how its structure for tax purposes may be different from its operating structure.
- The complexity of the industry or regulatory environment **in a particular emerging market** in which the entity operates may present an opportunity or pressure for management to engage in fraudulent financial reporting. ~~For example, a~~An individual specializing in fraud schemes in specific emerging markets may assist in identifying fraud risk factors or where the financial statements may be susceptible to risks of material misstatement due to fraud.
- The use of complex financial instruments or other complex financing arrangements may present an opportunity to ~~inadequately disclose the risks and nature of complex structured products~~**fraudulently misstate balance sheet amounts**. ~~For example, a~~A valuation expert may assist in understanding the product's structure, purpose, underlying assets, and market conditions, which may highlight fraud risk factors such as discrepancies between market conditions and the valuation of the structured product.

Suggested Edit: Paragraph A35

We recommend the following changes to paragraph A35 of ED-240 to clarify how forensic skills may be used on the audit and to avoid the implication that every audit should use a forensic specialist because we do not believe that is the intent of ED-240.

A35. Forensic skills, in the context of an audit of financial statements, may combine accounting, auditing and investigative skills. Such skills may be applied **to evaluate the entity's** in an investigation and ~~(including the entity's~~ evaluation of an entity's **its** accounting records to **determine whether** obtain possible evidence of fraudulent financial reporting or misappropriation of assets **has occurred**), or in performing **to perform** audit procedures. The use of forensic skills may also assist the auditor in evaluating whether there is management override of controls or intentional management bias in financial reporting...

Suggested Edit: Paragraph A36

We recommend the following revision:

A36. In determining whether the engagement team has the appropriate competence and capabilities, the engagement partner may consider matters such as **experience** expertise in IT systems or IT applications used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit (e.g., such as the testing of high volumes of journal entries and other adjustments, or complex accounting estimates when responding to the significant risk related to management override of controls).

Engagement Performance

Paragraph 23 and Related Application Material

Suggested Edit: Paragraph 23

We suggest adding the following language to paragraph 23(a) to provide a fraud lens regarding engagement performance:

23. In applying ISA 220 (Revised),²¹ the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the audit engagement, taking into account the: (Ref: Para. A37)

- (a) Skills, knowledge, and experience of the individuals to be given significant engagement responsibilities **related to fraud**; and
- (b) Risks of material misstatement due to fraud identified and assessed in accordance with ISA 315 (Revised 2019).

Recommended Change: Paragraph A37

We also suggest adding the following language to paragraph A37:

²¹ ISA 220 (Revised), paragraph 30(b)

A37. The engagement partner may plan for direction, supervision and review to respond to identified risks of material misstatement due to fraud by, for example:

- Involving additional individuals with specialized skills or knowledge, such as forensic and other experts
- Assigning more experienced individuals to the engagement team; or
- Changing the composition of the engagement team so that more experienced members of the engagement team conduct certain audit procedures for those specific audit areas that require significant auditor attention (**for example, due to the nature and sensitivity of fraud, particularly those involving senior management, assigning fraud inquiries to appropriately skilled or suitably experienced members of the engagement team**).

According to the findings from outreach performed by the ASB (see part A of this letter), it is beneficial to have experienced engagement team members perform any inquiries related to fraud because they are more likely to detect red flags and ask appropriate follow-up questions.

Suggested Edit: Paragraph 24 and Related Application Material

Insights from ASB Outreach Related to Engagement Team Discussion

Outreach performed by the ASB (see part A of this letter) suggested ongoing engagement team discussions to remind auditors throughout the audit to maintain professional skepticism and continuously assess risks of material misstatement due to fraud. Accordingly, we are supportive of the guidance in paragraph A38 that discusses the frequency of the engagement team discussions.

Paragraph A38

We recommend the following revision:

A38. Depending on the nature and circumstances of the audit engagement, the engagement partner's approach to direction, supervision and review may include increasing the extent and frequency of the engagement team discussions. It may be beneficial to hold additional engagement team discussions based on the occurrence of events or conditions that have impacted the entity, which may identify new or provide additional information about existing fraud risk factors (see **Appendix 1** for examples of fraud risk factors).

Examples:

- Sudden changes in business activity or performance (e.g., decrease in operating cashflows of an entity arising from economic conditions resulting in increased pressure internally by management to meet publicly disclosed earnings targets).
- ~~Unexpected~~ **C**hanges in the senior management of the entity (e.g., the chief financial officer resigns, ~~with no explanation given for the sudden departure,~~ providing an opportunity for other employees in the treasury department to commit fraud given the lack of senior management oversight).

Application Material Related to Paragraph 34

Suggested Edit: Paragraph A71

Additionally, we suggest slightly revising application paragraph A71 to clarify that the auditor should be obtaining an understanding of the respective responsibilities of management and those charged with governance:

A71. In many jurisdictions, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of risks, including risks of fraud and the controls that address such risks. Since the responsibilities of those charged with governance and management may vary by entity and by jurisdiction, it is important that the auditor understands their respective responsibilities **of management and those charged with governance** to enable the auditor to obtain an understanding of the oversight exercised by the appropriate individuals with respect to the prevention and detection of fraud.²²

Suggested Edit: Paragraph A75

Lastly, we suggest making the following revision for paragraph A75 to improve the consistency in language and align with the terminology cited in paragraph 118 of the explanatory memorandum to ED-240 that describes the terms "fraud risk(s)" and "risk of material misstatement due to fraud". We encourage the IAASB to reconsider the use of the term "risk of fraud" throughout ED-240 and align such terms with paragraph 118. If the IAASB wants to continue to use the term "the risk of fraud" we believe the usage of such term should be explained and the IAASB should determine whether further conforming changes are needed in other ISAs.

A75. The auditor may also inquire of those charged with governance about how the entity assesses **fraud risk**~~the risk of fraud~~, the entity's controls to prevent or detect fraud, the entity's culture and management's commitment to integrity and ethical values.

Application Material Related to Paragraph 35**Suggested Edit: Paragraph A89**

We suggest making the following revision for paragraph A89 to improve the consistency in language:

A89. Management accepts responsibility for the entity's system of internal control and for the preparation of the entity's financial statements. Accordingly, it is appropriate for the auditor to make inquiries of management regarding management's own assessment of **fraud risk**~~the risk of fraud~~ and the controls in place to prevent or detect it. The nature, extent and frequency of management's assessment may vary from entity to entity. In some entities, management may make detailed assessments on an annual basis or as part of ongoing monitoring. In other entities, management's assessment may be less structured and less frequent. The nature, extent and frequency of management's assessment are relevant to the auditor's understanding of the entity's control environment. For example,

²² ISA 260 (Revised), paragraphs A1–A8 provide guidance about whom the auditor should be communicating with, including when the entity's governance structure is not well defined.

the fact that management has not made an assessment of **fraud risk** ~~the risk of fraud~~ may in some circumstances be indicative of the lack of importance that management places on internal control.

Suggested Edit: Paragraph 39

We recommend adding the following language to paragraph 39 to remain consistent with ISA 315:

Control Deficiencies Within the Entity's System of Internal Control

39. In applying ISA 315 (Revised 2019),²³ based on the auditor's **understanding and** evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud. (Ref: Para. A102–A103)

Paragraph 40 and Related Application Material

Suggested Edit: Paragraph 40

We recommend the following changes to paragraph 40 for clarity and conciseness:

40. In applying ISA 315 (Revised 2019),²⁴ the auditor shall:
- (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A104–A106)
 - (b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such risks, evaluate ~~whether they have been~~ **their** designed effectively and determine whether they ~~the controls~~ **the controls** have been implemented.

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Overall Responses

Paragraph 46 and New Paragraph A116A

Recommended Change: Paragraph 46

Auditors should recognize that fraud, while always involving an intentional act, is not always malicious. Fraud could stem from management's natural inclination to support the organization, which can result in biased assumptions and even intentional misstatements, during financial statement preparation. Highlighting this scenario in paragraph 46 could enhance the auditor's professional skepticism toward management bias. We believe the following language should be added to paragraph 46.

²³ ISA 315 (Revised 2019), paragraph 27

²⁴ ISA 315 (Revised 2019), paragraphs 28-34

46. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting **or a bias that may create a material misstatement.** (Ref: **par. A116A**)

Recommended Change: *New Paragraph A116A*

We also encourage the IAASB to add the following application paragraph relating to paragraph 46. This language identifies specific areas that are particularly susceptible to management bias. When auditors are aware of these high-risk areas, it can strengthen their professional skepticism while performing procedures related to them.

A116A. Management bias that may indicate fraud in the selection and application of accounting principles may individually or collectively involve matters such as contingencies, fair value measurements, revenue recognition, accounting estimates, related party transactions, or other transactions without a clear business purpose.

Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level

Recommended Change: *Paragraph 47*

We encourage the IAASB to make the following revisions to paragraph 47:

Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level

47. In accordance with ISA 330,²⁵ the auditor shall design and perform further audit procedures whose nature, timing and extent are **based on, and are** responsive to the assessed risks of material misstatement due to fraud at the assertion level, **and in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. When evaluating audit evidence with respect to the assessed risks of material misstatement, the auditor maintains professional skepticism, including when considering information that may be used as audit evidence and what procedures would be appropriate in the circumstances.** (Ref: Para. A117–A123)

This language is consistent with the IAASB's ED-500 and will prevent auditors from seeking or interpreting evidence in ways that support their preexisting beliefs or expectations, also known as confirmation bias. Making auditors aware of confirmation bias and clearly reminding the auditor to maintain professional skepticism may enhance professional skepticism and overall audit quality.

Audit Procedures Responsive to Risks Related to Management Override of Controls

²⁵ ISA 330, paragraph 6

Recommended Change: Paragraph 48

We suggest the following revisions to paragraph 48:

Audit Procedures Responsive to Risks Related to Management Override of Controls

48. **Even if specific risks of material misstatement due to fraud are not identified by the auditor, a possibility exists that management override of controls could occur. Accordingly, the auditor shall address** Irrespective of the auditor's assessment of the risks of management override of controls, **apart from any conclusions regarding the existence of more specifically identifiable risks, by designing and performing** the auditor shall design and perform the audit procedures in accordance with paragraphs 49–53, and **determining** determine whether other audit procedures are needed in addition to those in paragraphs 49–53, in order to respond to the identified risks of management override of controls.

The revised language incorporates similar language as paragraphs 31 and 32 in extant ISA 240, which clarifies the inherent risk associated with management override of controls and emphasizes the auditor's responsibility to perform procedures related to these risks.

Journal Entries and Other Adjustments

Paragraph 49 and Related Application Material

Recommended Change: Paragraph 49

We recommend calling out “entries posted directly to the financial statements” as part of the requirements outlined in paragraph 49. This step is crucial because auditors may not provide the needed focus on entries that are not made through journal entries recorded in the general ledger.

Journal Entries and Other Adjustments

49. The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, **including entries posted directly to the financial statements**. (Ref: Para. A124–A127)

Recommended Change: Paragraph A124

We recommend that the IAASB make the following revision to paragraph A124 in order to clarify the distinction between journal entries in the general ledger and adjustments to the financial statements. This clarification will reinforce the auditor's consideration of both methods and encourage them to design and perform appropriate procedures for each.

Why the testing of journal entries and other adjustments is performed

A124. Material misstatements of financial statements due to fraud often involve the manipulation of the financial reporting process by **(i)** recording inappropriate or unauthorized journal entries **in the general ledger** and other adjustments. This may occur throughout the year or at period end, or **(ii)** by management making adjustments to amounts reported in the

financial statements that are not reflected in **formal** journal entries, such as through consolidation adjustments, **report combinations**, and reclassifications.

Recommended Change: Paragraph A125

We recommend that the IAASB include the following addition to paragraph A125 in order to maintain consistency with our recommendations for paragraphs 49 and A124.

A125. Testing the appropriateness of journal entries **recorded in the general ledger** and other adjustments (e.g., entries made directly to the financial statements such as eliminating adjustments for transactions, unrealized profits and intra-group account balances at the group level) may assist the auditor in identifying fraudulent journal entries and other adjustments.

Recommended Change: Paragraph 50

We recommend the following revisions to paragraph 50 of ED-240 to further emphasize the importance of considering entries posted directly to the financial statements along with the entries recorded in the general ledger. Further, we recommend a new requirement for the auditor to consider fraud risk factors, the nature and complexity of accounts, and unusual entries processed. We believe these additions are important for designing appropriate audit procedures. We also believe it would be helpful for the IAASB to include additional application material in paragraph A130 that talks about the consideration of fraud risk factors and emphasizes the risk-based approach to selecting items for testing. The remaining edits to paragraph 50 are consistent with our recommendations for paragraph 49.

50. In designing and performing audit procedures in accordance with paragraph 49, the auditor shall:

- (a) Make inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- (b) Obtain audit evidence about the completeness of the population of all journal entries **recorded in the general ledger** and other adjustments made in the preparation of the financial statements throughout the period; (Ref: Para. A128–A129 and A135)
- (c) Consider fraud risk factors, the nature and complexity of accounts, and unusual entries processed;**
- (d) Select journal entries **recorded in the general ledger** and other adjustments made at the end of a reporting period, **including those posted directly to the financial statements**; and (Ref: Para. A130–A131, A132 and A134–A135)
- (e) Determine the need to test journal entries **recorded in the general ledger** and other adjustments throughout the period, **including those posted directly to the financial statements**. (Ref: Para. A130–A131 and A133–A134)

Accounting Estimates

Recommended Change: Paragraph 52

Paragraph 52(b) as written in ED-240 is broader than necessary, which poses challenges for auditors when applying it in practice. Our recommendation introduces a fraud lens and a materiality threshold, thereby clarifying the auditor's responsibilities and making the requirement more scalable.

We recommend the IAASB retains the following language from extant ISA 240 to paragraph 52(b):

52. In performing the evaluation in accordance with paragraph 51, the auditor shall:
- (a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and
 - (b) If indicators of possible management bias **that may represent a risk of material misstatement due to fraud** are identified, reevaluate the accounting estimates taken as a whole. (Ref: Para. A138–A140)

Paragraph 53 and Related Application Material

Recommended Change: Paragraph 53

We encourage the following procedures be added to paragraph 53 to clarify the auditor's responsibilities related to transactions outside the normal course of business. Because these transactions are more susceptible to fraud, it is important to include additional requirements to ensure risks associated with such transactions are sufficiently addressed.

Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual

53. For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. **The procedures shall include the following:** (Ref: Para. A141-~~A141B~~)

(a) Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the transaction

(b) Determining whether the transaction has been authorized and approved in accordance with the entity's established policies and procedures

(c) Evaluating whether significant transactions outside the normal course of business that the auditor has identified have been properly accounted for and disclosed in the financial statements

Recommended Change: Paragraph A141 and New A141A-A141B

Additionally, we believe adding the following application material will also help auditors perform procedures around transactions outside the normal course of business.

Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual (Ref: Para. 53)

A141. Indicators that may suggest that significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual, may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets include:

- The form of such transactions appears overly complex (e.g., the transaction involves multiple entities within a consolidated group or multiple unrelated third parties).
- Management has not discussed the nature of and accounting for such transactions with those charged with governance of the entity, and ~~there is inadequate~~ documentation **is inadequate**.
- Management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- Transactions that involve non-consolidated related parties, including special purpose entities, have not been properly reviewed or approved by those charged with governance of the entity.
- Unusual activities with no logical business rationale.
- **Transactions involve related parties or relationships or transactions with related parties previously undisclosed to the auditor.**
- ~~The transactions involve previously unidentified related parties or **other** parties that do not have the substance or the financial strength to support the transaction without assistance from the entity under audit **or any related party of the entity.**~~
- **Transactions lack commercial or economic substance or are part of a larger series of connected, linked, or otherwise interdependent arrangements that lack commercial or economic substance individually or in the aggregate (for example, a transaction is entered into shortly prior to period end and is unwound shortly after period end).**
- **Transactions occur with a party that falls outside the definition of a related party (as defined by the applicable financial reporting framework), with either party able to negotiate terms that may not be available for other, more clearly independent parties on an arm's-length basis.**
- **Transactions exist to enable the entity to achieve certain financial targets.**

A141A. Procedures for evaluating significant transactions outside the normal course of business or that otherwise appear unusual may include evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees and other obligations, if any. Examples of information that might be relevant to the auditor's

evaluation of a related party's financial capability include, among other things, the audited financial statements of the related party, reports issued by regulatory agencies, financial publications, and income tax returns of the related party, to the extent available.

A141B. If the auditor identifies fraud or suspected fraud, the auditor is required to communicate with management and those charged with governance in accordance with paragraphs 66-68. The auditor is also required to determine whether reporting to an appropriate authority outside the entity is necessary in accordance with paragraph 69.

Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion

Paragraph 54 and Related Application Material

Recommended Change: Paragraph 54

As previously stated in our response to question 7, it is important for the auditor to consider the outcomes of all auditing procedures, not just analytical procedures, when evaluating whether the initial assessment of the risks of material misstatement due to fraud remains appropriate. Accordingly, we recommend the revisions to paragraph 54 as shown in question 7.

Recommended Change: Paragraph A142

We also recommend the following revisions to application paragraph A142 to better align with paragraph A18 of ISA 520.

A142. ISA 520 explains that the analytical procedures **designed and** performed near the end of the audit **may identify a previously unrecognized risk of material misstatement.** ~~are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.²⁶ However, t~~The auditor may perform the analytical procedures at a more granular level for certain higher risk classes of transactions, account balances, and disclosures to determine whether certain trends or relationships may indicate a previously unidentified risk of material misstatement due to fraud. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud requires professional judgment. Unusual relationships involving year-end revenue and income are particularly relevant. These may include, for example...

Application Material Related to Paragraph 55

Recommended Change: Paragraph A146

Insights from ASB Outreach Related to Whistleblower Hotlines

²⁶ ISA 520, paragraphs A17–A19

The ASB outreach highlighted the importance of whistleblower hotlines and internal audit in identifying fraud, therefore we recommend reordering the list so that these are the first two items listed in paragraph A146.

Obtaining an Understanding of the Fraud or Suspected Fraud

A146. When obtaining an understanding of the fraud or suspected fraud, the auditor may do one or more of the following depending on the facts and circumstances of the audit engagement and the nature of the fraud:

- ~~Involve an auditor's expert, such as an individual with forensic skills.~~ [reordered below to list whistleblower first, followed by internal audit]
- Inspect whistleblower files for additional information, ***if applicable***.
- Make further inquiries of:
 - The entity's in-house counsel or external legal counsel.
 - Individuals within the internal audit function (if the function exists).
- ***Involve an auditor's expert, such as an individual with forensic skills.***

Suggested Edit: Paragraph A149

We offer the following changes for consideration.

A149. When evaluating the appropriateness of the entity's process to investigate and remediate the fraud or suspected fraud in accordance with paragraphs 55(b) and 55(c), the auditor may consider:

- How management:
 - Responded to any misstatements that were identified (e.g., the timeliness of when the identified misstatements were corrected by management).
 - Responded to the fraud (e.g., disciplinary, or legal sanctions imposed on the individuals involved in perpetrating the fraud).
 - Addressed the control deficiencies regarding the prevention or detection of the fraud.
- Whether the outcome of the process is likely to prevent the reoccurrence of the fraud or suspected fraud (e.g., new ***controls*** control activities are designed and implemented to prevent and detect such frauds).

Suggested Edit: Paragraphs A150 and A151

We offer the following changes to put the application material in the context of the requirement, otherwise this is verbatim from ISA 265.

Determining if Control Deficiencies Exist

A150. ISA 265²⁷ 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 **related to fraud or suspected fraud** that the auditor considers in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

- The susceptibility to loss due to fraud of the related asset or liability.
- The importance of the controls to the financial reporting process (e.g., controls over the prevention and detection of fraud).

A151. **The following are examples of** indicators of significant deficiencies in internal control **related to fraud or suspected fraud that may constitute a significant deficiency.** ~~include, for example:~~

- Evidence of ineffective aspects of the control environment, such as the identification of management fraud, whether or not material, that was not prevented by the entity's system of internal control.
- The lack of a process to investigate the fraud or suspected fraud or a process to investigate the fraud or suspected fraud that is not appropriate in the circumstances.
- The lack of, or ineffective, remediation measures implemented by management to prevent or detect the reoccurrence of the fraud or suspected fraud.

Application Material Related to Paragraph 57

Suggested Edit: Paragraph A155

We believe that certain examples in paragraph A155 could be categorized as both qualitative and quantitative indicators of fraud. Therefore, we recommend eliminating the distinction between qualitative and quantitative examples.

A155. The following are examples of qualitative or quantitative circumstances that may be relevant:

Examples:

~~Qualitative circumstances include whether a misstatement:~~

- Involves those charged with governance, management, related parties, or third parties that brings into question the integrity or competence of those involved.
- Affects compliance with law or regulation which may also affect the auditor's consideration of the integrity of management, those charged with governance or employees.

²⁷ ISA 265, paragraphs 8 and A6–A7

- Affects compliance with debt covenants or other contractual requirements which may cause the auditor to question the pressures being exerted on management to meet certain earnings expectations.
- Affects key performance indicators such as earnings per share, net income and working capital, that may have a negative effect on the calculation of compensation arrangements for senior management at the entity.

~~Quantitative circumstances include whether a misstatement:~~

- Affects key performance indicators such as earnings per share, net income and working capital, that may have a negative effect on the calculation of compensation arrangements for senior management at the entity.
- Affects multiple reporting periods such as when a misstatement has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements.

Documentation

Recommended Change: Paragraph 70

We recommend the following revisions to paragraph 70 to better align with ISA 230 and to further clarify that this is not separate risk assessment documentation, but rather is part of the documentation required in ISA 315 (Revised 2019). Further, we recommend the IAASB include additional application material to explain that this is not a separate risk assessment from that performed and documented in accordance with ISA 315 (Revised 2019), but instead is a requirement to document the incremental considerations when applying ED-240.

70. In applying ISA 230,²⁸ the **The** auditor shall include the following in the audit documentation **of the identification and the assessment of the risks of material misstatement required by ISA 315 (Revised 2019)**: (Ref: Para. A193)

- (a) The matters discussed among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud in accordance with paragraph 29 **and how and when the discussion occurred and the audit team members who participated**.
- (b) Key elements of the auditor's understanding in accordance with paragraphs 33–38, the sources of information from which the auditor's understanding was obtained and the risk assessment procedures performed.
- (c) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, and the rationale for the significant judgments made.

²⁸ _____ ISA 230, paragraphs 8–11, A6–A7 and Appendix

70A. In applying ISA 230,²⁹ the auditor shall include the following in the audit documentation:

- (d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion.
- (e) The results of audit procedures performed to address the risk of management override of controls, the significant professional judgments made, and the conclusions reached.
- (f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached.
- (g) The matters related to fraud or suspected fraud communicated with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters.

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: See comments on effective date below

Detailed comments (if any):

²⁹ ISA 230, paragraphs 8-11, A6-A7 and Appendix

As articulated in our PIE comment letters (track 1 and track 2), we emphasize the necessity to evaluate the cumulative effect of the proposed revisions to the auditor's report.

As recommended in question 5 above, we encourage the IAASB to undertake a project to holistically evaluate the cumulative impact and usefulness of all proposed changes to the auditor's report (i.e., fraud project, Going Concern project and the Listed Entity and PIE – Track 2 project.) One of the more effective ways of doing this is to work with experts who can assist the IAASB with performing a "controlled language experiment" to evaluate the potential effects of the proposed changes in the auditor's report. This outreach will provide important insights into whether the proposed changes are likely to achieve their intended objectives and can help to inform effective dates. The ASB has gained significant experience with this type of research over the past year and we would be pleased to share our experiences with the IAASB.

Appendix – Linkages Between ISA Risk Assessment Requirements and ED-240

The exposure draft (ED) of proposed ISA 240 (Revised) (IAASB ED-240) addresses the auditor’s responsibilities relating to fraud in an audit of financial statements and the implications for the auditor’s report. IAASB ED-240 refers to or expands on how ISA 315 (Revised 2019) and other ISAs are to be applied with a fraud lens. This diagram shows the interrelationship of the requirements in ISA 315 (Revised 2019), ISA 500, and ISA 540 (Revised) and the requirements in IAASB ED-240 to assist auditors in understanding the key linkages and in applying all relevant requirements in relation to risk assessment and the consideration of fraud.

[Note: The flowchart is based on IAASB ED-240 and does not take into consideration the AICPA’s recommended revisions to IAASB ED-240. The fraud lens in IAASB ED-240 is denoted by bold underlined italics. Please see our response to Part A and question 9 of the AICPA ED-240 comment letter].

Risk Assessment Procedures and Related Activities

ISA 315 (Revised 2019)

13. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for:
 a. The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and
 b. The design of further audit procedures in accordance with ISA 330.

IAASB ED-240

26. In applying ISA 315 (Revised 2019), the auditor shall perform the procedures in paragraphs 27–39 to obtain audit evidence that provides an appropriate basis for the:
 (a) Identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels, taking into account fraud risk factors; and
 (b) Design of further audit procedures in accordance with ISA 330.



Information from Other Sources

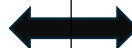
ISA 315 (Revised 2019)

15. In obtaining audit evidence...the auditor shall consider information from:
 a. ...acceptance or continuance of the client relationship or the audit engagement; and
 b. ... other engagements performed by the engagement partner for the entity.

16. When the auditor intends to use information obtained from the auditor’s previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit.

IAASB ED-240

27. In applying ISA 315 (Revised 2019), the auditor shall consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present.



Engagement Team Discussion

ISA 315 (Revised 2019)

IAASB ED-240

17. The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement.

29. In applying ISA 315 (Revised 2019), when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include:

- (a) An exchange of ideas about:
 - (i) The entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance;
 - (ii) Fraud risk factors, including:
 - a. Incentives or pressures on management, those charged with governance, or employees to commit fraud;
 - b. How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and
 - c. How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties.
- (b) A consideration of any fraud or suspected fraud, including allegations of fraud, that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years.



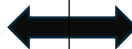
Analytical Procedures Performed and Unusual or Unexpected Relationships Identified

ISA 315 (Revised 2019)

IAASB ED-240

14. The risk assessment procedures shall include the following:
- (a) ...
 - (b) Analytical procedures.
 - (c) ...

31. The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.



Evaluation of Fraud Risk Factors

ISA 315 (Revised 2019)

N/A

IAASB ED-240

32. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control

Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework

ISA 315 (Revised 2019)

19. The auditor shall perform risk assessment procedures to obtain an understanding of:

(a) The following aspects of the entity and its environment:

- (i) The entity’s organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT;
- (ii) Industry, regulatory and other external factors; and
- (iii) The measures used, internally and externally, to assess the entity’s financial performance;

(b) The applicable financial reporting framework, and the entity’s accounting policies and the reasons for any changes thereto; and

(c) How inherent risk factors affect susceptibility of assertions to misstatement and the degree to which they do so, in the preparation of the financial statements in accordance with the applicable financial reporting framework, based on the understanding obtained in (a) and (b).

IAASB ED-240

33. In applying ISA 315 (Revised 2019), the auditor shall obtain an understanding of matters related to the:

(a) Entity and its environment that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors, including with respect to:

- (i) The entity’s organizational structure and ownership, governance, objectives and strategy, and geographic dispersion;
- (ii) The industry; and
- (iii) The performance measures used, whether internal or external, that may create incentives or pressures to achieve financial performance targets.

(b) Applicable financial reporting framework and the entity’s accounting policies that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors.

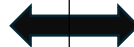
Understanding the Components of the Entity’s System of Internal Control
The Control Environment

ISA 315 (Revised 2019)

IAASB ED-240

21. The auditor shall obtain an understanding of the control environment relevant to the preparation of the financial statements, through performing risk assessment procedures, by:

- (a) Understanding the set of controls, processes and structures that address:
 - (i) How management’s oversight responsibilities are carried out, such as the entity’s culture and management’s commitment to integrity and ethical values;
 - (ii) When those charged with governance are separate from management, the independence of, and oversight over the entity’s system of internal control by, those charged with governance;
 - (iii) The entity’s assignment of authority and responsibility;
 - (iv) How the entity attracts, develops, and retains competent individuals; and
 - (v) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control; and
- (b) Evaluating whether:
 - (i) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior;
 - (ii) The control environment provides an appropriate foundation for the other components of the entity’s system of internal control considering the nature and complexity of the entity; and
 - (iii) Control deficiencies identified in the control environment undermine the other components of the entity’s system of internal control.

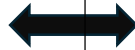


34. In applying ISA 315 (Revised 2019), the auditor shall:
- (a) Obtain an understanding of how management’s oversight responsibilities are carried out, such as the entity’s culture and management’s commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud.
 - (b) Obtain an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the controls that management has established to address these risks.
 - (c) Make inquiries of management regarding management’s communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
 - (d) Make inquiries of those charged with governance about:
 - (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity;
 - (ii) Their views about whether and how the financial statements may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; and
 - (iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.

The Entity's Risk Assessment Process

ISA 315 (Revised 2019)

22. The auditor shall obtain an understanding of the entity's risk assessment process relevant to the preparation of the financial statements, through performing risk assessment procedures, by:
- (a) Understanding the entity's process for:
 - (i) Identifying business risks relevant to financial reporting objectives;
 - (ii) Assessing the significance of those risks, including the likelihood of their occurrence; and
 - (iii) Addressing those risks; and
 - (b) Evaluating whether the entity's risk assessment process is appropriate to the entity's circumstances considering the nature and complexity of the entity.



IAASB ED-240

35. In applying ISA 315 (Revised 2019), the auditor shall:
- (a) Obtain an understanding of how the entity's risk assessment process:
 - (i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures for which risks of fraud exist;
 - (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and
 - (iii) Addresses the assessed fraud risks.
 - (b) Make inquiries of management and of other appropriate individuals within the entity about:
 - (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and
 - (ii) Their views on whether the financial statements may be materially misstated due to fraud.

The Entity's Process to Monitor the System of Internal Control

ISA 315 (Revised 2019)

IAASB ED-240

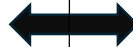
24. The auditor shall obtain an understanding of the entity's process for monitoring the system of internal control relevant to the preparation of the financial statements, through performing risk assessment procedures, by:

- (a) Understanding those aspects of the entity's process that address:
 - (i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified; and
 - (ii) The entity's internal audit function, if any, including its nature, responsibilities and activities;
- (b) Understanding the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose; and
- (c) Evaluating whether the entity's process for monitoring the system of internal control is appropriate to the entity's circumstances considering the nature and complexity of the entity.

36. In applying ISA 315 (Revised 2019), the auditor shall:

- (a) Obtain an understanding of aspects of the entity's process that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies.

(b) Make inquiries of appropriate individuals within the internal audit function (if the function exists) about whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity and to obtain their views about the risks of fraud.



The Information System and Communication

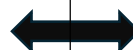
ISA 315 (Revised 2019)

IAASB ED-240

25. The auditor shall obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, through performing risk assessment procedures, by:

- (a) Understanding the entity's information processing activities, including its data and information, the resources to be used in such activities and the policies that define, for significant classes of transactions, account balances and disclosures:
 - (i) ...
 - a. Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, incorporated in the general ledger and ...

37. In applying ISA 315 (Revised 2019), the auditor's understanding of the entity's information system and communication relevant to the preparation of the financial statements shall include understanding how journal entries are initiated, processed, recorded, and corrected as necessary.



Control Activities

ISA 315 (Revised 2019)

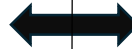
IAASB ED-240

26. The auditor shall obtain an understanding of the control activities component, through performing risk assessment procedures, by:

(a) Identifying controls that address risks of material misstatement at the assertion level in the control activities component as follows:

- (i) ...
- (ii) Controls over journal entries, including nonstandard journal entries used to record nonrecurring, unusual transactions or adjustments;
- ...

38. In applying ISA 315 (Revised 2019), the auditor's understanding of the entity's control activities shall include identifying controls that address risks of material misstatement due to fraud at the assertion level, including controls over journal entries, designed to prevent or detect fraud.



Control Deficiencies Within the Entity's System of Internal Control

ISA 315 (Revised 2019)

IAASB ED-240

27. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.

39. In applying ISA 315 (Revised 2019), based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud.



Identifying and Assessing the Risks of Material Misstatement due to Fraud

ISA 315 (Revised 2019)

IAASB ED-240

28. The auditor shall identify the risks of material misstatement and determine whether they exist at:

- (a) The financial statement level; or
- (b) The assertion level for classes of transactions, account balances and disclosures.

32. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.

40. In applying ISA 315 (Revised 2019), the auditor shall:

- (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors.
- (b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such risks, evaluate whether they have been designed effectively and determine whether they have been implemented.

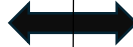


Presumption of the Risks of Material Misstatement Due to Fraud in Revenue Recognition

ISA 315 (Revised 2019)

IAASB ED-240

32. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.



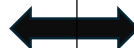
41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors.

Significant Risks Related to Management Override of Controls

ISA 315 (Revised 2019)

IAASB ED-240

32. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks.



42. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall treat those risks as risks of material misstatement due to fraud and thus significant risks.

ISA 500

IAASB ED-240

Inquiries of Management and Inconsistent Responses

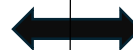
Inconsistency in, or Doubts over Reliability of, Audit Evidence

11. If:

(a) audit evidence obtained from one source is inconsistent with that obtained from another; or

(b) the auditor has doubts over the reliability of information to be used as audit evidence,

the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.



30. In applying ISA 500, if the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity, are inconsistent with each other, the auditor shall:

- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
- (b) Consider the effect, if any, on other aspects of the audit.

ISA 540

IAASB ED-240

Retrospective Review of the Outcome of Previous Accounting Estimates

14. The auditor shall review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgments about previous period accounting estimates that were appropriate based on the information available at the time they were made.



28. In applying ISA 540 (Revised), the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review.