

5 May 2024

The International Auditing and Standard Board

Via its website www.iaasb.org

Honourable Chairman and Board Members:

Re: EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS.

'A competence without character is a waste.

A resource with a character and competence is whole some.'

We deeply appreciation your (and supporting staff) guidance in matters of audit. Your efforts enhance trust in financial reporting. We stand with the Board as it strives to fill in the need of global audit standards.

Our comments on the captioned topic follow.

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General Comments: Summary>>

1. Character and competence>> We see the auditor made up of an unbreakable whole of character and competence¹ in roughly equal measures. An explicit reference linking the compliance with the Code of Ethics to the auditor in ED240 would reinforce the unmentioned part of the whole.



(Photo: A bicycle with its wheels marked 'character' and 'competence'. The auditor drives with character and competence and vice-versa²). See [Q10.0](#)

2. Connect the dots: Link documentation with audit engagement resources>> Another pillar central and pervasive to ED240 is how the auditor documents matters relating to the topic³. Documentation depends on assigned suitable engagement resources⁴. It drives cost

¹ The Code of Conduct is silent on the measures. The equal measures of character and competence is our own assessment. Our statement is compatible with the International Code of Ethics for Professional Accountants, 2023 Edition. 'The Code'. Character = integrity + objectivity + confidentiality + professional behavior.

² Photo credit: Microsoft Copilot.

³ We reach to the conclusion based on diagram above para 11 under 'Overview...'

⁴ See paragraph 22 of the ED-240. Documentation depends on resources devoted to the audit engagement. Why is it not depicted in the diagram above para 11 separately or



for the auditor (major input = duration of time), eventually recovered from the client. Acknowledge the link between the input (time and resources) with the output (documentation) in the ED-240⁵. Also, no question was framed on this topic to solicit our opinion giving an impression as if that is not open for an opinion or change.

3. Error and fraud>> Its easy to take one for the other. Whereas an error is unintentional and a fraud is not, divided by an imaginary razor thin line⁶. When a fraud becomes an error is a complex topic. We were looking for guidance in this ED240 on this topic, which is not there.

4. Deemed fraud>> The risk of an audit engagement increases with the nature and frequency of the errors found. Individually these errors may not count for much but when seen collectively becomes what? We propose the concept of 'deemed fraud'. It is aligned to the concept of 'deemed negligence' in Torts.

We wish the Board to consider the equivalent concept of 'deemed fraud' based on cumulative weightage of number of errors.

5. Auditor to do right irrespective>> The auditor needs to perform the work properly than hide behind limitations of audit. We support your conclusion that the inherent limitations of the audit do not justify not planning and performing the audit engagement to obtain proper audit evidence and reach to a conclusion⁷.

The integrity of financial statements is a function of effective roles of the prepares and the auditor respectively to keep it free of any material misstatements. A borderline cause of an error or fraud may be of financial information outdated or updated or not.

Additional comments (main):

1. Define fraud from stakeholders point of view>> 'An intentional act involving use of deception to gain an unjust advantage perpetuated by internal or external stakeholders, individually or in combination'. See [Q1](#)

with documentation? Why is it relegated to para 93 (Other Matters) in EM? See documentation as a function depended on assigned audit resources to reach there.

⁵ No ISA creates a link. Effectively ignoring the half of the circle, in our opinion)

⁶ misstatements are concealed for non-detection, with one layer over the other like an onion. A fraud on detection changes its color like a chameleon. It is often presented as an error

⁷ Para 15 of the EM

2. Simplify the document. Use plain English. Good syntax. Subject-wise index. Use flow-chart/diagrams to communicate. Provide hyperlinks in the document to ease navigation. See [Q10](#)

3. Cross-reference Appendixes directly with ED-240, not application paras only. Connect appendixes directly with the relevant paras of ED240 and indirectly via its application material. See [Q10.6](#)

4. We support the Stand-by arrangements. See [Q.7](#)

Q1. 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? Section 1-C, paragraphs 13–18 Section 1-J, paragraphs 91–92 Paragraphs 1–11 and 14.

R1: Yes, subject to the following.

1.1 Definition of fraud>> We give credit to the Board for our heightened awareness on the term 'third-party' fraud. Would it be interesting to see fraud as an intentional act involving deception to gain an unjust or undue advantage for or against an entity by the internal and external stakeholders individually or in collusion⁸? Internal stakeholders are TWCG and employees. External stakeholders may be customers, suppliers, service providers or even cyber-criminals.

Looking at stakeholders as internal or external helps simplify the possible definition of fraud. It seems more understandable than using the term 'third-party' that most of us take it for granted without pausing for what it means.

1.11 A related question is: when an error becomes a fraud or vice-versa for the auditor? Guidance cannot found in the ED240 on the matter. Trust in the financial reporting means its free from material misstatements which may be unintentional (error) or intentional (fraud).

1.2 We also give credit to the Board on using a term like 'non-material'⁹ fraud. Non-material was normally assumed to mean immaterial in both qualitative and quantitative terms.

⁸ See ED240 paragraph 57(c) reflecting the same spirit.

⁹ The term 'non-material' is not used in the Standard and Application Material.



1.3 We agree that ‘the IAASB did not support expanding the role of the auditor to detect third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements.’¹⁰

Identifying third-party frauds is most difficult. We see the auditor as a watchdog and not a bloodhound. This consolation may not be satisfactory for some. At the end of an audit engagement, the question is: Have we discharged our duties as auditors reasonably? We believe that there remains an invisible area in an entity the auditor remains unaware about.

1.4 We agree to policy of the Board of leveraging enhancements in other jurisdiction¹¹.

1.5 We found the statement contrary to our understanding that ‘the IAASB was not seeking to expand the role and responsibilities of auditor relating to the fraud in an audit of the financial statements’¹².

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Professional Skepticism

Q2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements? Section 1-D, paragraphs 19–28 Paragraphs 12–13 and 19–21

R2: Yes. The discussion remains incomplete without a proper reference to ‘The Code’¹³.

¹⁰ Para 92 Explanatory Memorandum

¹¹ Para 15 of the Explanatory Memorandum

¹² Para 17 of the Explanatory Memorandum.

¹³ We refer to the Handbook of the International Code of Ethics for Professional Accountants 2023 Edition. The Code mentions professional skepticism in 120.5 A3 (applies to all accountants regardless of the professional activity undertaken), R120.15, 120.15 A1 (for professional accountants in public practice), 120.15 A3 (exercise professional skepticism which includes a critical assessment of evidence) 120.16 A1 (professional accountants in public practice are required to exercise professional skepticism when planning and performing audits...it goes on to assert that professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts), 120.16 A2 (examples), 400.5 900.4 and glossary (independence of mind and appearance), 605.4 A2 (evaluating of internal audit function)



2.1 We agree that the attitude of professional skepticism must be maintained throughout the audit. We agree to the inclusion of professional skepticism as key concept in this ISA.

2.2 We highlight the mention of the attitude of professional skepticism without its explicit cross-reference to the Code of Conduct.

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Risk Identification and Assessment

Q3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements? Section 1-F, paragraphs 36–46 Paragraphs 26–42

R3: Yes.

Our reasons for the agreement is follows

3.1 Explicit requirement now includes exchange of ideas regarding entity’s culture, management culture, management’s commitment to integrity, oversight of TCWG and other risk factors.

3.11 What is missing?>> Obtain information on many of above may not be available or in case of first audit engagement. Review past audit working papers, and points forwarded to the current year In case of a recurring audit engagement.

3.2 Additional audit team discussion and involving experts.

3.3 Analytical procedures at planning and completion stage.

3.4 Fraud risk in revenue recognition.

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Fraud or Suspected Fraud

Q4. 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? Section 1-G, paragraphs 47–57 Section 1-E, paragraph 35 Paragraphs 55–59 and 66–69

R4: Yes.

The reasons for our agreement follows:

4.1 There is now an explicit requirement for an understanding of fraud or suspected fraud¹⁴. This requires the auditors to make inquiries, evaluate if appropriate where an entity has a process in place to investigate such matter and remedial measures, determine further significant control deficiencies¹⁵ (in the internal control related to the identified fraud and error) exists.

4.11 Explanatory Memorandum paragraph 51 refers to ED240 para 55 (b)-(c): elements of the auditor's understanding. The said reference is not correct. The term 'elements of auditor's understanding' is used with reference to ED240 para 33-38.

4.2 First responsibility of the engagement partner is missing: to provide audit engagement resources to complete the task as in ISQM1. Other three responsibilities of the engagement partner¹⁶ are clear: perform additional risk assessment procedures, design and perform further audit procedures, comply with the additional responsibilities under the law and regulations of the jurisdiction.

4.3 We normally have a difficult time in making management understand why we need a list of changes in the HR¹⁷. 'What it has to do with the audit?' we often hear. Keep in mind that employees who play a role in perpetuating a fraud may proceed to exit swiftly during the period. Changes in the workforce may leave a trail of incomplete information or obstacles in accessing information. Guidance? ED240 mentions it not.

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Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report

Q5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report? Section 1-H, paragraphs 58–78 Paragraphs 61–64

R5: Yes.

5.1 Length of auditor's report>> Its positive to find space in the auditor's report for the fraud and its communication (and going concern); It's the length of the clean report.

¹⁴ Paragraph 55 of the ED240

¹⁵ Absence of a process in place to investigate a fraud or suspected fraud may rightly be a control deficiency for the auditor as provided in the A151 (determining if a control deficiency exists). We wonder how can this be so for most micro entities and least complex entities? In a developing country like ours (A148), we expect few entities with TCWG with intellectual capital to have something like this in place; highlights the gap to cover.

¹⁶ Paragraph 56 of the ED240

¹⁷ This situation may be cited as an example of source of information indicative of fraud or suspected fraud in A29.

We have generally observed loss of user understandability because of the volume of disclosures in the financial statements and the time pressures of users.

In Pakistan, our majority is unable to understand the financial statements and the role of the auditor in it. The auditor's report (or financial statements) is not in our national language.

5.2 Incompatible?>> We agree with the Board that the primary purpose of an audit is not to test an entity's internal control. However, is it a purpose of an audit? If no, why in so many jurisdictions¹⁸ the auditor is required by law to give a separate report on the internal controls relating to financial reporting to be in order? Is it an example or an exception of thinking about the auditor between the Board and national regulators?

5.3 Undue Emphasis>> We are pleased that the Board avoided the trap of overemphasizing fraud¹⁹. Integrating KAMs related to fraud with clear sub-heading (Key Audit Matters including matters relating to Fraud²⁰) is acceptable. We understand this sub-heading will be used when required, not as a matter of routine.

5.4 What if KAM not required by law?>> We note that reporting of Key Audit Matters is required for the listed entities in Pakistan only. Whereas we consider entities smaller in size and nature of ownership to be relatively high-risk. How the fraud is to be reported in case KAM are not required by law?

The auditor's report for entities other than listed companies in its present form is exempted from reporting KAMs. With inherent high-risk present in all entities this does not sound too good.

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Q6. 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? Section 1-H, paragraphs 76–77 Paragraphs 61–64

R6: Yes.

¹⁸ Why the Board is yet to notice this enhancement? Are you unaware of report issued by auditor on internal control?

¹⁹ See para 64 of the Explanatory Memorandum.

²⁰ Para 71 of the EM.

6.1 We recommend KAM in the auditor's report of all entities including public interest entities (PIEs). KAMs provide a quality space to auditor to communicate with user the matters of importance.

6.2 We request the national regulator (The Securities and Exchange Commission of Pakistan) and the accounting regulator (The Institute of Chartered Accountants of Pakistan) to enforce this requirement proactively for all including PIEs and the State Enterprises).

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Considering a Separate Stand-back Requirement in ED-240

Q7. 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)? Section 1-J, paragraphs 107–109

R7: No. Our reasons are as follows-

7.1 The ED-240 contributes directly in bridging the 'expectations gap' between auditors and users of financial statement. A separate stand-back requirement in this case is appropriate: to evaluate all relevant evidence...The process of a final review of all evidence is appropriate.

7.2 We believe that the nature of the profession is such that the work of auditors goes on right upto the last moment before the financial statements are initialed. The nature of our task is such that I feel it is done so deliberately so as not to give the auditor a reasonable time to complete the work. That is where we are most vulnerable and mistakes do happen. However, we do not consider it a reason not to have the stand-back requirement.

7.3 Our professional experience indicates that the ultimate comprehensive review (a practice since long) is hectic and useful for all involved. It pays us and the client both heavy returns in refreshing our faded memory, work done, linking different elements of the financial statements as a whole, compels us to collect promised documents, make financial statements misstatement-free. The odd working hours remain a feature of our job. We should be more disciplined and better organized.

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Scalability



Q8. 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)? Section 1-J, paragraph 113

R8. Yes.

Our reasons for the agreement are as follows:

8.1 It is a task to pick up which conditions are applicable in an audit engagement. However, we overcome this limitation with experience. First-time audits remain an exception to the rule. Our preference for stand-alone standard remain. We are surely encouraged by the 'ISA for the Less Complex Entities'.

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Linkages to Other ISAs

Q9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520,30 ISA 540 (Revised) and ISA 701) to promote the application of the ISAs in an integrated manner? Section 1-J, paragraphs 81–84 –

R9: No.

Our reasons are as follows:

9.1 We consider the character and competence to be a balancing act for an auditor. The ED-240 is (mainly about the competence) not linked in any way to the Code of Conduct. The Standard remains incomplete without such explicit reference, for us.

9.2 ISA230 and ISA315(revised) and ISA 330 appears to be missing on the matter of documentation. See 10.1 below

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Other Matters

Q10. 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.

Response to 10.

10.1 The Code of Ethics directs the personality of the auditor. ED240 is a part of competency of the auditor. The cycle is not complete without the other. There should

be a link between the two. An explicit link in the ED240 of competence with the compliance to the Code strengthens it.

An auditor balances the character with competency. Smaller variations between the two in a person is natural. An larger difference between the two is likely to be seen as a defect specially with an over-size competence.

10.2 We see quality of documentation on an audit engagement to be a function of the resources assigned to the audit. The link is missing in the diagram of para 11. Its placement is inappropriate as para 93 of EM.

10.21 Documentation and the audit cost>> Metaphorically documentation is the base on which the edifice of fraud stands²¹. We frequently find blemishes found by our regulators as statements to justify their existence²². Who is going to audit them? Where this cycle will end? What we know is not everything requiring documentation is documented: not all in an audit can be documented. There is no concept of perfect documentation. Given its centrality to the auditor, guidance is sought in the Application²³.

We also notice a missing appendix which associates foundation standards²⁴ with documentation requirements²⁵ of other ISAs.

What will be the impact of the documentation requirements in ED240 over the cost of the audit? ED240 avoids the topic. It is obvious that every new requirement in terms of procedure, documentation, communication or reporting will raise the cost of the audit. Let client be ready to foot the bill to bridge the expectation gap.

Irrespective, the Board should rise above these considerations to do its job properly: its simply not possible to carry out the spirit of the Standard properly otherwise.

10.3 Use simple (and correct) English; and short sentences. The language used for communicating a matter directly impacts its understanding and hence application. The comprehension and understanding and therefore effectiveness of this Standard can easily be doubled by using a better language²⁶.

²¹ Diagram above para 11

²² ...with the accusation of being biased. We stand with the truth no matter what.

²³ See para 70 and related A193 (no guidance there as such).

²⁴ ISA 230 Documentation

²⁵ ISA 315 (Revised) and ISA 330 Auditor responses to the assessed risks

²⁶ Artificial Intelligence may be a tool in writing well.

How good is the language of the Standard? Very Good? Good? Average? Below average? Create a Task Force of non-native Users to assess and/or bring in some language experts to have an independent view of this ED (and others). Let them conclude if the present is the best form of coming up with an ISA.

The Board must relentlessly make an effort to revise and simplify the syntax of the ED. The English used in your publications creates difficulties in understanding for the non-native language users of this ED.

Use simple English for improving understandability of the Standard.

10.4 Use of Topic-wise Index to save time and facilitate navigation. Our Standards have always been without Index. The volume of a document may not be warranting one. This changed in recent times where we see a Standard comes with a Basis of Conclusion, and linkages to others. It's time to include topic-wise index to facilitate users to access the target material fast²⁷.

10.5 Use of flowchart/diagrams. We appreciate use of a relevant diagram in Explanatory Memorandum to explain the changes proposed in the ED240²⁸.

10.51 Example: Conditional scalability.

10.6 Using hyperlinks within the document (Explanatory Memorandum, proposed ED, Application material) would ease navigation.

10.7 Link the individual Appendix to the main body of the ED240, along with the Application material). This will connect ED240 with individual appendix directly.

Appendix 1: Direct ref. Para 18(b). Via or indirect ref. para A23, A38, A56.

Appendix 2 direct reference to para 44 and indirect sub ref. to A115, A123.

Appendix 3: Direct ref. Para 12-13 and 19-21. Indirect sub ref to A30.

Appendix 4: Direct ref. Para 36(b). Indirect ref. A96, A99, A131

Appendix 5: Direct ref. Para 15. Indirect ref. A17

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²⁷ Example: If the user wishes to learn more about the use of technology. Para 88: 'The IAASB introduced considerations about the use of technology in application material paragraphs A5, A9, A28, A35, A51, A60, A64, A85, A97, A116, A117, A135, A139, A143, and in Appendices 2 and 4. Subject-wise index entry: 'Technology, use' followed by all the relevant references after ED240.

²⁸ 'Section 1-B – Overview of the Key Changes Proposed in ED-240', paragraph 11.



Translations

Q11. 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.

R11. The quality of a translated document us as good as the original approved Standard.

The task of the translated documents of understandability can be made much easier by selecting the right English of the approved text. [Back to Summary](#)

Effective Date

Q12. 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?

R12. ED240 is a fine effort; shorten the process by six months. However, we will rest the matter with the better judgement of the Board.

The reason for our suggestion is as follows-

12.1 In Pakistan, the ISAs are notified by the Securities and Exchange Commission of Pakistan to become a part of the law at the recommendation of the Institute of Chartered Accountants of Pakistan. The process pushes the effective date by six months at minimum.

12.2 We hope to see in near future that the ISA-240 reporting of fraud in the auditor's report is applied to all entities, not only listed and the public interest entities.

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End of Comments.

We dedicate our efforts in writing these comments to the survivors of massacres all over the world. The humanity is far from perfection. We observe destruction of two towers every year and ask what accounting has to do with the brutal killings of more than 34,000 humans, mostly women and children in the Gaza, Palestine.