

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)	BDO International Limited
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Nazia Lakhani Head of Global Audit Quality
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Nazia.lakhani@bdo.global
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.	Global
	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.	Accounting Firm
	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:

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 agree with the proposed changes and reallocation of the paragraphs with the intention of clarifying the responsibility of the auditor in regards the identification of fraud in an audit of financial statements (including non-material fraud or suspected fraud). We also agree with the intention of the IAASB that auditors apply a fraud lens during the audit. However, we recommend that the IAASB emphasize in communications about the revised standard that the changes within the revised standard do not have the intention of expanding the roles and responsibilities of the auditor with respect to fraud.

As it relates to the concept of qualitatively material fraud, although the requirements are the same as extant ISA 240, we also agree that paragraph A11 will help to reinforce to the auditors the importance of considering factors irrespective of the amount involved.

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):

In general, we believe that ED 240 emphasizes the importance of exercising professional skepticism adequately, through applying a fraud lens. As fraud is one of the most important topics of an audit, and of main importance for external stakeholders / the general public, we believe it helps to summarize the most important principles about professional skepticism of other ISAs in this ED-240. This is because professional skepticism must be applied throughout the audit.

We understand that professional skepticism is a critical attitude or mindset that needs to be shown by individual members of the audit team, including the engagement partner. Therefore, professional

skepticism is related to the personal behavior of individual team members. However, we believe that this critical attitude and mindset at an individual level is also driven by the organization and culture of the engagement team's firm. We believe that the involvement of forensic experts helps teams to develop their professional skepticism and to maintain a critical mindset during the audit. With that in mind, we believe that ISQM 1 helps to set the correct mindset and attitude. In paragraph 240.A13 a reference is made to ISQM 1 and the firm's system of quality management. Further, paragraph 240.22 states that the engagement partner determines whether specialized skills, such as forensic expertise, are needed for the audit engagement. We believe firm-wide criteria in accordance with ISQM 1 should be defined and/or resources provided in application material to help the engagement partner determine when additional forensic or other experts are needed.

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)¹ 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: [Disagree, with comments below](#)

Detailed comments (if any):

The following are some areas that we believe need further guidance and clarification:

- The concept of fraud risk factors is used in various requirement paragraphs of ED-240, including paragraphs 18(b), 26(a), 27, 29(a)(ii), 32, 33(b), etc. However, it is not clear whether the identification of fraud risk factors is required. For example, paragraph 26(a) states that fraud risk factors are 'tak[en] into account' whereas paragraph 27 indicates that the auditor 'shall consider' fraud risk factors, paragraph 29(b) that the engagement team discussion 'shall include' fraud risk factors, and paragraph 32 that the auditor 'shall evaluate' whether the audit evidence from the risk assessment procedures and related activities 'indicates' that one or more fraud risk factors are present. We suggest clarifying the wording in the different requirement paragraphs where fraud risk factors are referred to ensure consistency.
- Further, it is not clear in paragraph 32 of ED-240 whether the intent is for the auditor to evaluate audit evidence obtained from risk assessment procedures and related activities for the existence of fraud risk factors *overall* or on an individual basis. We suggest adding further clarification in this area. Also, the title of paragraph 32 ('Evaluation of fraud risk factors') is confusing: this paragraph is about the evaluation of the audit evidence from the risk assessment procedures, not about the evaluation of the fraud risk factors.
- Paragraph 240.A55 says that the determination (please note the different wording compared to 'evaluation', which is confusing) as to whether fraud risk factors indicate that there are risks of material misstatements due to the existence of fraud, is a matter of professional judgment. We suggest adding some examples, perhaps in implementation or other non-authoritative guidance, which result in an auditor identifying a risk of material misstatement due to fraud as well as

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

examples of when an auditor does not identify a risk of material misstatement due to fraud even though fraud risk factors are present.

- Paragraph A111 states 'The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where fraud risk factors are not significant.' The part 'where fraud risk factors are not significant' suggests an assessment of fraud risk factors which seem inconsistent with the requirement paragraphs as noted in the prior bullet points, where the words 'take into account', 'consider' etc. are used, to identify possible fraud risk factors. The requirement paragraphs do not mention the word 'significant' nor imply an assessment of fraud risk factors. We suggest adding further clarification in this area.
- Paragraph A111 also includes examples when rebutting the risk of material misstatement due to fraud in revenue recognition may be considered appropriate. As these are relatively simple and non-complex situations, we suggest adding some examples of more complex situations where the rebuttal of fraud risk in revenue recognition may still be appropriate. For example:
 - Property taxation revenue in a local Government that is determined by applying a fixed rate to externally assessed property values to arrive at the budgeted revenue: This situation is more complex than the examples currently provided, but auditors could still conclude that the fraud risk factors are not significant. This is because as the revenue amount is fixed, there is no motivation (once the budget is approved, there is no reason to change the revenue total) or opportunity (any manipulation of the assessment values would be offset by a change to the rate) to overstate or understate the revenue that has been approved by those charged with governance.
 - The audited entity is a housing association with an x-number of comparable rental units (houses). The fraud risk in revenue recognition can be rebutted due to the simple and homogeneous nature of the transactions (fixed rental prices, quantity of rental units has not changed and there are no vacancies). There is no motivation or opportunity to fraudulently report rental income as prices and quantities are fixed.
- Further, we suggest that paragraph 240.41 emphasizes that the presumed risk of fraud in revenue recognition primarily relates to fraudulent financial reporting rather than misappropriation of assets. We believe explicitly stating that the presumed fraud risk in revenue recognition is primarily related to fraudulent financial reporting will improve consistency and therefore quality in identifying and assessing risks of fraud in revenue.
- The wording in paragraph 42 seems to imply that auditors are expected to identify multiple risks of material misstatement related to the management override of controls. We suggest some clarification on this requirement as there are likely some instances when there may only be a single risk related to management override of controls.
- Paragraphs ED 240.33-39 relate to procedures from ISA 315 about obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control. However, these requirements are based on ISA 315 which are now included in ED 240. We foresee the risk that some regulators may interpret these requirements as separate procedures to identify and document fraud risk factors whereas another interpretation is to evaluate the evidence obtained through a fraud lens (i.e., not separate procedures). Please provide some clarity on these requirements.

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: [Agree, with comments below](#)

Detailed comments (if any):

We agree that ED-240 includes robust work effort requirements and application material to address instances of fraud or suspected fraud, especially in the following areas:

- Having an explicit requirement in paragraph 55 for the auditor to obtain an understanding of the fraud or suspected fraud in order to increase the consistency and quality of work done by auditors in these situations.
- The requirement in paragraph 56 for the engagement partner to determine the effect of the fraud or suspected fraud on the audit reinforces the partner involvement requirements laid out in paragraph 31 of ISQM 1.
- Depending on the nature of the fraud or suspected fraud, some of the fraud or suspected fraud requirements may not be applicable. This will allow for effective scalability in applying the revised standard in practice.

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?

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

(See ED, paragraphs 61–64)

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

Detailed comments (if any):

We agree with the proposed changes in ED 240 about the enhancement of transparency about fraud related matters in the auditor's report. ED 240 follows ISA 701 about communicating Key Audit Matters (KAM) in the auditor's report. We agree with the IAASB, as indicated in paragraph A163 of ED 240, that users of financial statements have a specific interest in fraud related matters and that, most of the time, these matters require significant auditor attention and therefore are eligible to be reported as a KAM. We also agree with what is included in paragraph 240.64, that when the auditor determines that there are no KAMs related to fraud, the auditor shall include a statement about this in the auditor's report.

However, we believe that in the auditor's report, fraud should not be included in the Key Audit Matters section but in a separate section similar to going concern. If both topics are reported in two specific paragraphs, this would give the auditor the opportunity to also report on more general observations,

such as the entity's fraud risk management system. Having a specific paragraph on fraud in the auditor's report provides more clarity on the responsibilities of management and those charged with governance (TCWG) related to fraud.

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: [Agree, with comments below](#)

Detailed comments (if any):

We welcome the proposed enhanced transparency for listed entities by including fraud considerations in the auditor's report. We would draw your attention to the fact that, in some jurisdictions (e.g., Netherlands, UK), local audit standards are already in scope where fraud risks that required significant auditor attention are communicated in the auditor's report for all statutory audits. Experience in the UK and the Netherlands has shown that mandatory reporting about fraud matters sharpens the focus on fraud for both the audit team as well as the entity. We also see that reporting about fraud matters in the auditor's report contributes to improved transparency from audited entities about fraud risks, for example, in their annual report.

Therefore, due to the significance of fraud related matters for external stakeholders and the general public, we recommend that the requirements related to reporting on fraud in the auditor's report be expanded at least to PIEs, if not to all statutory audits using a staged implementation (i.e., first for PIEs and then followed by other audits).

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):

Although we agree that there already exist stand backs in other ISAs, we feel excluding it from ED-240 is inconsistent. To reduce the number of stand backs included separately in various ISAs, we recommend adding to the existing stand back requirement in ISA 220 a summary of where stand backs are performed during the audit (e.g., during risk identification and assessment, when performing

procedures related to fraud, when performing procedures relating to accounting estimates, etc.). This would also reduce the need to add stand backs when revising ISAs in the future.

Alternatively, if the above recommendation is not possible, we believe that inclusion of a separate stand back requirement in ED-240 would help build on the stand back requirements first introduced in ISA 540 (Revised) and subsequently in ISA 315 (Revised 2019). This would help to embed stand back procedures in the auditor’s mindset and also ensure this is examined specifically through a fraud lens. The stand back through a fraud lens could be a powerful tool to assist auditors in the detection of material fraud.

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: [Agree, with comments below](#)

Detailed comments (if any):

Overall, we believe that ED-240 is scalable to entities of different sizes and complexities. The conditions prefacing some of the requirements can be applied regardless of the size or complexity of the entity being audited. Further, the examples in the application guidance are helpful in illustrating how scalability can be achieved. We recommend adding some more examples on how to achieve scalability, perhaps in non-authoritative guidance, specifically related to documenting the auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² ISA 220 (Revised),³ ISA 315 (Revised 2019), ISA 330,⁴ ISA 500,⁵ ISA 520,⁶ ISA 540 (Revised)⁷ and ISA 701⁸) to promote the application of the ISAs in an integrated manner?

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

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ ISA 330, *The Auditor’s Responses to Assessed Risks*

⁵ ISA 500, *Audit Evidence*

⁶ ISA 520, *Analytical Procedures*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

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

Detailed comments (if any):

We generally agree with the approach to linking to other ISAs in ED-240, including not repeating the requirements and application guidance in other ISAs. The linkage between ISA 250 and ED-240 is relatively clear. However, we suggest that paragraph A18 regarding the relationship of fraud with corruption, bribery and money laundering should be referenced to paragraph 14 as it relates more closely to non-compliance with laws and regulations (ISA 250).

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):

We have the following additional comments related to ED-240:

- The title prior to paragraph 53 of ED-240 of 'Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual' should be updated to include the word 'that' so it states 'Significant Transactions Outside the Normal Course of Business or That Otherwise Appear Unusual'.
- In paragraph 60a of ED-240, the auditor is required to report to 'the person or persons who made the audit appointment'. We assume this would either be management or those charged with governance; however, we believe the text can be made clearer here.

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: [See comments on translation below](#)

Detailed comments (if any):

We continue to support the IAASB's efforts to make ISAs and other pronouncements issued by the International Standard Setting Boards, accessible to users through effective and timely translation. Many of the terms and concepts in ED-240 are present in the ISAs or defined in the ED so at this stage, we do not foresee any immediate issues in respect of translation. To aid accessibility, we would continue to ask the IAASB to make their package of professional standards as accessible as possible through the e-International Standards online tool as soon as possible.

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):

We would support an Effective Date which has a minimum of 18 months from the point at which the final ISA is published. Although many firms may choose to adopt the new standard earlier, this timeframe would allow sufficient time for many audit firms' methodologies, tools, guidance, and training materials to be implemented.