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المنظمة الدولية لهيئات الأوراق المالية

30 May 2024

Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017 U.S.A.

Our Ref: 2024/O/C1/IAASB/PM/116

Subject Line: ***Proposed International Standard on Auditing (ISA) 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs***

Dear Willie:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or we) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *Proposed International Standard on Auditing (ISA) 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). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high-quality accounting, auditing, assurance and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure, auditing and assurance concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions. We appreciate the opportunity to comment on the Paper and have outlined our views regarding certain topics below.

General Comments

We appreciate the Board's initiative to develop the proposed revisions in ED-240 to clarify the role and responsibilities of the auditor for detection of fraud in the audit of financial statements, promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud by establishing more robust requirements and enhancing the application material, reinforce the importance of the appropriate exercise of professional skepticism throughout the audit, and enhance transparency of fraud-related procedures. Fraudulent financial reporting and the misappropriation of assets continue to be at the forefront of the public interest in audited financial statements, particularly in light of recent high-profile corporate failures. We are supportive of the scope of the project and focusing the discussion on what the auditor's responsibilities are, as we believe high-quality audits contribute to investor trust in capital markets, and the public interest is best served when participants in the financial reporting eco-system have confidence in audits of financial statements.

Extant ISA 240 states that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management and the role of the auditor is to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Therefore, there currently is a rightful expectation that auditors are responsible to detect and report on fraud that is material to the financial statements. The way fraud is perpetrated has significantly evolved since the extant standard became effective and likely will continue to evolve and increase in complexity due to the pace of change in technological advances and sophistication of schemes. Therefore, an auditor's attitude of professional skepticism will also need to evolve, as it will be critical to the auditor's ability to recognize and respond to circumstances that may exist that can result in the financial statements being materially misstated, whether caused by fraud or error. We are supportive of the Board's attention to these topics in ED-240.

In order to achieve the Board's objective to promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud, we believe there are certain areas where more explicit requirements could be added to provide enough specificity to promote consistent behavior. We have included below suggestions and editorial edits that we believe will further strengthen and clarify the auditor's requirements to better enable the auditor to detect fraud through the application of appropriate exercise of professional skepticism, effective risk assessment procedures, and design and perform further audit procedures to respond to those risks, including using engagement team members with sufficient time and appropriate specialized skills or knowledge.

Specific Questions

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?*

Yes, we believe ED-240 clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud. In particular, we are supportive of the Board's approach to the assessment of materiality, including emphasizing that judgments about materiality with regards to fraud include both qualitative and quantitative considerations and that fraud will be a significant qualitative factor when evaluating materiality, including when fraud gives rise to misstatements that might be quantitatively small.

Additionally, we are supportive of the Board's approach to emphasize the explicit roles and responsibilities of the engagement partner as it relates to fraud detection throughout all stages of the engagement. We believe the new and enhanced requirements and application material that should be directly undertaken by the engagement partner is critical to support a high-quality audit. We also appreciate the Board framing the discussion based on what an auditor's responsibilities are without the unnecessary discussion of what the auditor's role is not that has long dominated the profession's discussion of the topic.

Regarding the concept of third-party fraud, refer to our response to Question 10: *Definitions* below.

Professional Skepticism

2. *Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?*

With regards to the auditor's responsibilities relating to fraud, including exercising professional skepticism, we believe it is critical for the Board to consider fraud schemes that are common in today's business environment. Based on the Association of Certified Fraud Examiners' Occupational Fraud 2024: A report to the nations (page 11), and based on our experience with enforcement cases in our own jurisdictions, financial reporting fraud is most commonly perpetrated in the following areas: revenue recognition; estimates, including improper recognition or measurement; and improper or omitted disclosures, including related party disclosures. While many of the aforementioned areas are discussed in examples included in the application material and appendices in ED-240, we believe the Board should further reinforce the auditor's exercise of professional skepticism as it relates to these specific areas within the requirements. We believe such refinements are critical for the auditor to respond to circumstances that may exist which could enhance the likelihood that an auditor will detect fraud.

While we acknowledge and support the IAASB's proposed changes made to ED-240 to reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements, we believe the Board can further enhance the requirements and application guidance to reinforce the importance of professional skepticism in the following areas:

Audit evidence

ED-240 paragraph 20 includes a requirement that states: "*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.*" However, we believe the requirement should require the auditor to maintain professional skepticism throughout the audit when evaluating the relevance and reliability of information, including contradictory information, intended to be used as audit evidence more broadly and provide a link to ISA 500, *Audit Evidence*, as the proposed paragraph only requires professional skepticism on one element of audit evidence i.e., authenticity.

With regards to authenticity specifically, we continue to support the Board's proposed ISA 500 (Revised), *Audit Evidence*, that lists authenticity as an attribute to consider when evaluating the reliability of information intended to be used as audit evidence. However, we continue to believe ISA 200, paragraph A21 should be strengthened and more closely align to the auditor's requirement to evaluate the reliability of information intended to be used as audit evidence i.e. the auditor *should* consider the authenticity in their evaluation of reliability of the information provided rather than "accepting the information as genuine unless the auditor has reason to believe the contrary". We believe this change is especially important to promote consistent behavior of auditors to maintain professional skepticism as it relates to audit evidence.

Responses to the assessed risks of material misstatements due to fraud

In order to enhance the requirements and application material in ED-240 to reinforce a more robust exercise of professional skepticism when performing procedures to respond to the assessed risks of material misstatements due to fraud in specific areas where fraud is commonly perpetrated as discussed above, we believe the following should be included as sub-sections within the "*Responses to the assessed risks of material misstatements due to fraud*" section, together with linkages to the relevant requirements in other ISAs, where applicable:

- Audit procedures responsive to the assessed risk of fraud in revenue recognition
- Related party transactions
- Adequacy of financial statement disclosures
- Confirmations
- Contradictory evidence

Consistent with our comment letter on the IAASB's *Proposed Strategy and Work Plan for 2024-2027,* as it relates to ISA 505, *External Confirmations*, we believe the Board should include guidance for auditors on how to assess the reliability of external confirmations received, with regard to the possibility of fraud. There should also be more complete requirements on how auditors should respond where there is no response to a confirmation request.

Risk Identification and Assessment

3. *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?*

We support the Board's approach to build on the foundational requirements in ISA 315 (Revised in 2019), *Identifying and assessing the risks of material misstatement*, and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements. However, it is unclear how the Board determined which key concepts from ISA 315 (Revised 2019) to incorporate into ED-240. For example, in some cases certain requirements from ISA 315 (Revised 2019) have been included in ED-240 without, or with limited, modification (i.e., without applying a meaningfully tailored "fraud lens") to what is already required in ISA 315 (Revised 2019). Some of the application material paragraphs in ED-240 contain procedures with a meaningfully tailored "fraud lens" that we believe could result in more robust risk identification and assessment of fraud risks if applied consistently and we encourage the Board to consider including these explicit fraud considerations in the requirements in ED-240 instead of having the more general requirements that are mostly consistent with the requirements ISA 315 (Revised 2019). Specifically, paragraphs A66, A67, A69, A70, A79, A94, and A97 contain certain procedures that could meaningfully apply a "fraud lens" to the ISA 315 (Revised 2019) requirements that we believe could result in more robust risk identification and assessment of fraud risks.

In other instances, certain requirements from ISA 315 (Revised 2019), once a "fraud lens" has been applied to it, have not been included in ED-240 where the inclusion of such requirements could result in a more robust risk identification and assessment of fraud risks. For example, in addition to evaluating the entity's process to investigate and remediate the fraud or suspected fraud once identified as described in paragraphs 55(b) and (c), we believe it is also important for the auditor to obtain an understanding of the entity's process to report, investigate and remediate fraud or suspected fraud as part of obtaining an understanding of the components of the entity's system of internal control to identify and assess fraud risks. Another example would be the inclusion of additional tailored requirements related to technology in the information systems and communication section.

In order to emphasize the auditors' professional skepticism requirements, we believe it is important to emphasize that auditors should not have a "checklist mentality" to risk identification and assessment procedures. Similar to ISA 500, paragraph A6, we also believe it is important to remind auditors in ED 240 that inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement.

In addition to the aforementioned, we believe there are certain other requirements related to risk identification and assessment in ED-240 that should be strengthened:

Iterative nature of fraud risk identification and assessment

We believe the Board should strengthen the proposed requirements to emphasize that the auditor's risk assessment and use of the "fraud lens" is an iterative process that continues until the issuance of the audit report. Specifically, we recommend that the Board consider the following to further emphasize the iterative nature of fraud risk identification and assessment:

- Including a paragraph, similar to ISA 315 (Revised 2019) paragraph 7, that requires an iterative and dynamic risk identification and assessment process in ED-240.
- Specifically stating that inquiries of those charged with governance, management, internal audit, and other appropriate individuals within the entity (ED-240 paragraphs 34(c)–34(d), 35(b), and 36(b)) should be required throughout the audit not just during the planning phase.
- Revise the reference to "engagement team discussion**s**" throughout the standard to emphasize that such discussions should occur more than once.

Fraud inquiries

In addition to emphasizing the importance of the iterative nature of fraud inquiries, we believe the Board should strengthen the fraud inquiry requirements in the following ways:

- Move all required fraud inquiries to its own subsection within the "Risk assessment and related activities" section as opposed to embedding these inquiries within the "Understanding the components of the Entity's System of Internal Control" subsection as we believe such inquiries could provide meaningful information related to all components of the entity's system of internal control. The inclusion of these requirements under certain specific components may have the unintended consequence of limiting inquiries to obtaining an understanding of those specific components only.
- Expand all the required inquires to also include inquiries related to the concepts of incentive/pressure, opportunities, and attitudes/rationalization to commit fraud in order to help the auditor identify and evaluate fraud risk factors as required in ED-240 paragraph 32.
- We believe the auditor should also perform the inquiries required in ED-240 paragraph 34(c) with those charged with governance to assess whether management and those charged with governance have consistent understandings of management's processes to identify, respond and communicate risks of fraud in the entity, including the use of materiality thresholds.

- We believe the auditor should also perform the inquiries required in ED-240 paragraph 34(d) with management because we believe it could be a relevant source of information to use in the auditor's risk identification and assessment process.
- Include a specific documentation requirement in paragraph 70 related to the inquiries performed, who was involved, and the results of the discussions.

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?*

Yes, we agree ED-240 establishes robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit.

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?*

We are generally supportive of the IAASB's approach to enhance transparency in the auditor's report about fraud-related matters, where appropriate, including the proposed use of existing requirements in ISA 701, *Communicating key audit matters in the independent auditor's report*, while emphasizing the need to report entity-specific information in Key Audit Matters (KAMs) and discouraging the use of boilerplate language. To further drive an increase in reporting of KAMs related to fraud to satisfy the needs expressed by stakeholders for more transparency about matters related to fraud in the auditor's report, we believe the IAASB should add the following requirement to ED-240 paragraph 61:

> *These matters related to fraud are often matters that require significant auditor attention and would ordinarily be of most significance in the audit of the financial statements of the current period and therefore considered key audit matters.*

In order to be consistent with the conforming and consequential amendment proposed in ISA 700 (Revised), *Forming an opinion and reporting on financial statements*, paragraph 40(a)(iii), we suggest adding the following requirement to ED-240 paragraph 61:

> *(d) Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.*

ED-240 paragraph 61 would, therefore, state:

In applying ISA 701, the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A162–A168)

a) Identified and assessed risks of material misstatement due to fraud;
b) The identification of fraud or suspected fraud;
c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud; and
d) Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

These matters related to fraud are often matters that require significant auditor attention and would ordinarily be of most significance in the audit of the financial statements of the current period and therefore considered key audit matters.

We further recommend removing paragraph 64 which states: "*…if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters related to fraud to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor's report."* We believe ED-240, together with our suggestions above, appropriately enhances the transparency requirements about matters related to fraud in the auditor's report and the inclusion of an explicit negative statement may increase the expectations gap as users may infer a higher level of assurance than reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. It may also have the unintended consequence of creating a scenario where an auditor would not be able to comply with the requirements in ED-240 when the circumstances described in ISA 701 paragraph 14 applies. Relatedly, we also recommend removing "including matters related to fraud" from the proposed title in the auditor's report.

We also suggest the Board consider developing educational materials aimed at investors specifically to provide information about the role and responsibilities of the auditor related to fraud, the requirements of ED-240 and key audit matters in order to help address potential expectation gaps.

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?*

Yes, consistent with our comment letter on the IAASB's Exposure Draft: *Proposed Narrow Scope Amendments to the International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code,* we support the IAASB's proposal to align the differential requirements already established within ISA 701 for listed entities today with the definition of a PIE and subsequently also support the proposed differential requirements on transparency in the auditor's report about matters related to fraud proposed in ED-240 be applicable to audits of financial statements of PIEs.

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)?*

Yes, we agree with the IAASB's decision not to include a separate stand-back requirement in ED-240 as we believe the relevant stand-back requirements are already included in other ISAs and are appropriately referred to in ED-240 paragraph 1 that states *"…The requirements and guidance in this ISA refer to,* ***or expand on, the application of other relevant ISAs*** [emphasis added]*, in particular ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330 and ISA 701."*

Linkages to Other ISAs

9. *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, ISA 540 (Revised) and ISA 701) to promote the application of the ISAs in an integrated manner?*

Refer to our responses to other questions within this comment letter where we provided specific feedback regarding the appropriateness of linkages to other ISAs.

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.*

Definitions:

Fraud

Paragraph 18(a) defines fraud as, "*An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."* While we acknowledge the definition of fraud has remained unchanged from extant ISA 240, we believe the definition should be grounded in the fact that it is the auditor's responsibility to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement due to fraud. In addition, we believe the Board should consider a new definition of fraud given the following challenges:

- certain terms and concepts associated with fraud, such as bribery, corruption, and money laundering, are not directly addressed in the definition of fraud (Explanatory memorandum paragraph 89(a));
- lack of clarity in understanding the auditor's role with respect to third party fraud (Explanatory memorandum paragraph 89(b));
- the subjectiveness associated with determining whether an act resulted in an "unjust" advantage; and
- the challenges associated with determining whether an act resulted in an "illegal" advantage when ED-240 paragraph 6 states "*the auditor does not make legal determinations of whether fraud has actually occurred.*"

We suggest the Board consider the following definition: "An intentional misstatement in financial statements, including the omission of an amount or a disclosure." This proposed definition provides clarity that it relates to fraud impacting the financial statements, is neutral as to who perpetrates the fraud and what types of fraud it relates to, and it closely aligns with the Board's definition of error which is defined as "*An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.*"

Regarding third-party fraud, we believe the Board should further clarify the intended scope. Paragraph A22 explains that "*fraud or suspected fraud committed against the entity by customers, suppliers, service providers, or other external parties is generally described as third-party fraud."* However, we believe the Board should include more guidance and examples of when third-party fraud is, and is not, considered fraud for purposes of ED-240. Also, we believe the Board should include further guidance and examples on the auditor's work effort related to third-party fraud, including the extent of procedures to be performed, in order to promote consistent understanding and application of the requirements.

We also believe the Board should include guidance to provide clarity and promote consistent understanding of the applicability of the requirements in instances where there has been misappropriation of assets while the amounts have been appropriately accounted for and sufficiently disclosed in the financial statements.

Fraud Risk Factors

Paragraph 18(b) defines fraud risk factors as, "Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud." However, ED-240 paragraphs A2, A51, A56, A65, A157, and Appendix 1, *Examples of Fraud Risk Factors,* discuss the concept of rationalization as a third concept that is generally present when material misstatements due to fraud occur. Therefore, we believe the Board should consider revising the definition of fraud risk factors, the corresponding application paragraph A22, and paragraph 29(a)(ii) to include the concept of rationalization.

Journal Entries

ED-240 paragraph 50(b) requires the auditor to "*obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements throughout the period.*" We support this requirement, however, we believe the Board should provide clarity in the form of guidance on how to apply the requirement in instances where the auditor has concluded certain *populations* [emphasis added] of journal entries do not present a risk of material misstatement and no further testing will be performed. For example, in a complex group audit situation where the group auditor concluded audit work will not be performed at certain components in accordance with ISA 600, *Special considerations – audits of group financial statements (including the work of component auditors),* paragraph 22 due to those components not presenting a risk of material misstatement, the group auditor may need to use component auditors for the sole purpose of testing the completeness of journal entries and other adjustments at certain components in order to comply with ED-240 paragraph 50 (b), as proposed.

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?*

We support the IAASB's coordination with other IAASB Task Forces and consideration of the timing of other projects, including the Going Concern project and the Listed Entity and PIE – Track 2 project. We believe the IAASB should consult with stakeholders, including investors and other users of the auditor's report on the proposed effective dates of various projects that may be contemplated to occur at the same time. With this in mind, it may be useful for the Board to monitor, as part of its post-implementation review, any challenges or unintended consequences as a result of effective dates occurring at the same time for several related projects.

Please refer to the appendix for editorial comments.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to discuss these matters further, please contact Nigel James at phone number: +1 (202) 551-5394 or email address: JamesN@sec.gov or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Paul Munter

Paul Munter
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions

Appendix – Editorial Comments

Paragraph 1 – "*…in particular ISA 200, ISA 230 [text added], ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500 [text added] and ISA 701."* We suggest these edits as we believe it is also important to highlight those two standards.

Paragraph 2(a) – *"Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. These responsibilities include identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address those assessed risks. This 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. [text added]"* We suggest this edit because we believe this consideration is applicable to both the auditor (paragraph 2) and those charged with governance (paragraph 3).

Paragraph 8 – *"~~Circumstances Giving Rise to the Fraud and the Identified Misstatements~~ [text deleted]Assessing materiality of fraud or suspected fraud [text added]"* We suggest revising the header to paragraph 8 to better align with the topic addressed within the paragraph and corresponding application material.

Paragraph 10 – *"However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive or contradictory [text added] audit evidence."* Additionally, we do not believe that inherent limitations of an audit justify an auditor's satisfaction with contradictory audit evidence.

Paragraphs 10-11 – We suggest moving these paragraphs to the application material, as we believe they are an application of the key concept discussed in paragraph 9.

Paragraph 13 –We suggest moving this paragraph to the application material, as we believe it is an application of the key concept discussed in paragraph 12.

Paragraph 15 – "*Some ISAs that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. ~~In these instances, the other ISAs expand on how this ISA is applied.~~ [text deleted]"* We suggest this deletion as to not imply that ED-240 contains all requirements and guidance that are applicable to the auditor's work on the identification and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud.

Paragraph 17(d) – *"To report and communicate [text added] in accordance with this ISA."* We suggest this edit because proposed requirements in ED-240 include both reporting and communication requirements.

Paragraph 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."* We believe the Board should provide guidance on the term "other key engagement team members" in order to promote consistent application.

Paragraph 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 and/or are inconsistent with knowledge the auditor has from performing the audit more broadly [text added], the auditor shall…"* We suggest this edit because we believe an auditor should also consider whether the responses of inquiries are inconsistent in the context of the broader audit.

Paragraph 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 and assess the risk of material misstatement [text added]."* We suggest this edit because we believe this requirement should go beyond the identification of a fraud risk factor.

Paragraph 35(a)(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~~ [text deleted]."* We suggest this edit to reduce redundancies.

Paragraph 57(c) – *"Reconsider the reliability of management's representations and audit evidence previously obtained, including [text added] when the circumstances or conditions giving rise to the misstatement indicate possible collusion involving employees, management or third parties."* We suggest this edit because we believe that even if there was not collusion, the auditor should reconsider the reliability of managements representations and audit evidence previously obtained.

Paragraphs 61 to 64 – We believe the section, "Implications for the Auditor's Report" (paragraphs 61 to 64), should be moved to follow the sections on "Written Representation" (paragraph 65) "Communications with Management and Those Charged with Governance" (paragraphs 66 to 68) in order to follow the ordering of the procedures in an audit engagement.

Paragraph A7 – We believe the Board should also include an example of a risk assessment procedure performed, that is not directly a fraud risk assessment procedure, that indicated the existence of fraud or suspected fraud.

Paragraph A17 Example – As proposed, it is not clear that this is an example of fraud. We suggest the Board consider revisions to the example to make the linkage to fraud clearer.

Paragraphs A18 to A20 – We note that the use of the term "bribery" may create translation issues and suggest the French translation use only one term, "corruption," to translate the phrase "corruption and bribery."

Paragraph A41 – *"Making the required inquiries of management and those charged with governance about matters referred to in paragraphs 34(c)–34(d) and 35(b) as early as possible in the audit engagement, for example, as part of the auditor's communications regarding planning matters, and performing updated inquiries throughout the audit engagement, up to the auditor's report date."* We suggest this edit to reinforce the iterative process of the auditor's risk assessment.

Paragraph A67 – We are supportive of the examples provided to illustrate areas where there may be an increased susceptibility to misstatement due to management bias or other fraud risk factors, however we believe another example related to revenue recognition should be added.

Paragraph A148 – *"New allegations of fraud were made by a disgruntled former employee. Management followed the policies and procedures in place at the entity and referred the matter to the legal and human resources departments. Since the entity's policies and procedures were followed and prior allegations ~~of a similar nature~~ [text deleted] with similar facts and circumstances [text added] had been investigated and determined to be without merit, management determined that no further action was necessary."* We suggest this edit because we believe "similar nature' may set too high of a bar.

Appendix 1 – "Lack of oversight by those charged with governance over how management utilized financial aid from governments and local authorities (e.g., bailouts during pandemics, wars, or impending industry collapse) ~~is not effective~~ [text deleted]." We suggest this edit to avoid potential misunderstanding caused by using both the phrases "lack of" and "is not effective."