

## 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)	ICAS (The Institute of Chartered Accountants of Scotland)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	James E Barbour
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	jbarbour@icas.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.	<a href="#">Europe</a>
	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.	<a href="#">Member body and other professional organization</a>
	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 generally believe that ED-240 clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements. We do, however, have concerns over the following aspects of the IAASB's proposals.

- (i) Placing the responsibilities of the auditor before those of management who have primary responsibility for the detection of fraud, could have the unintended consequence of exacerbating the current expectations gap.
  
- (ii) In relation to third-party fraud, we are not convinced that as currently drafted the auditor's responsibilities are as clear as they should be to ensure consistent understanding and implementation in practice. We therefore believe further work is required by the IAASB to address and clarify these specific aspects of the proposed revised standard. In particular, paragraph A21 of ED-240 should be revised to reflect additional guidance on who perpetrators of third-party fraud might be, which would facilitate a more focused identification of risk by the auditor.

### *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):**

Yes, we believe that in general ED-240 does reinforce the exercise of professional scepticism to the extent that it is able to, in relation to matters relating to fraud in an audit of financial statements.

We would, however, highlight two specific concerns; the first of which relates to the removal of the content in paragraph 14 of the extant version of ISA 240 i.e.

“14. 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 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. A10)”

Whilst we recognize that there is similar content in ISA 200, we believe that at the very least a cross-reference to paragraph 24 of ISA 240 should be made.

Secondly, we would encourage the IAASB to reinstate paragraph 13 of ISA 240 as in our view this serves as an important reminder for auditors to remain alert notwithstanding their prior experience of an entity's management and those charged with governance.

*Risk Identification and Assessment*

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>1</sup> 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:** [Neither agree/disagree, but see comments below](#)

**Detailed comments (if any):**

We believe there is scope for considerable refinement to ensure that ED-240 does 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.

ED-240 contains various examples of the inclusion of very similar content to that found in ISA 315 with little substantive additional reference to specific fraud matters. We would encourage the IAASB to review such matters e.g. the only apparent difference between paragraph 26 of ED-240 and paragraph 13 of ISA 315 is the need for the auditor to take account of fraud risk factors when identifying and assessing risks of material misstatement. There are a series of similar examples of this repetitive approach. We would encourage the IAASB to focus on providing enhanced clarity to clearly differentiate what are the incremental requirements in ED-240 i.e. those assessed specifically through a fraud lens related to the risk assessment process versus those requirements required by ISA 315 (Revised 2019) that when executed as intended would not require any additional work effort to identify and assess risks of material misstatement due to fraud.

We also believe that the requirement in paragraph 33 of ED-240 could be enhanced by better aligning with paragraph 19 of ISA 315 (Revised). In particular, as per paragraph 19 of ISA 315, paragraph 33(a)(i) of ED-240 should include the need for the auditor to have an understanding of the entity's business model. We believe that such an approach would assist the auditor's understanding of whether, and where, third-party relationships may exist, and therefore, their consideration of third-party fraud.

*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:** [Neither agree/disagree, but see comments below](#)

**Detailed comments (if any):**

We question whether it is practical for the requirements set out in paragraph 55 to apply to all cases of fraud or suspected fraud, given that there will be inconsequential potential frauds. We therefore believe that there is a need for the IAASB to revisit this approach to ensure that this requirement is appropriately targeted.

*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:** [Disagree, with comments below](#)

**Detailed comments (if any):**

Key audit matters are dealt with in ISA 701, and there should be no need to revisit this in ISA 240. The test as to whether a matter is a KAM or not should solely be dealt with in accordance with the requirements of ISA 701 and hence avoid unnecessary complexity and confusion.

Although we believe that ED-240 does not create a required presumption that the auditor will identify a key audit matter related to fraud, we are aware of differing views on this matter. This confusion is not helped by the content of paragraph A170 of ED-240 which strongly suggests that such a KAM should be identified.

“A170. One of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention, and whether such a matter is a key audit matter, is the importance of the matter to intended users' understanding of the financial statements as a whole. As users of financial statements have highlighted their interest in matters related to fraud, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 61, would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.”

We also have concerns over the inclusion in ED-240 of the requirement for an auditor to include suspected fraud as KAMs. This may lead to the risk of original information being reported by the auditor and the resultant practical consequences.

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):**

We believe that the reporting of KAMs should be limited to listed entities.

*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:** [Agree, with comments below](#)

**Detailed comments (if any):**

We agree with the IAASB's decision not to include a separate stand-back requirement in ED-240. In this regard, we believe that existing stand-back requirements in other ISAs, such as ISA 315 (Revised 2019), already apply in relation to audit evidence obtained from audit procedures performed in accordance with ISA 240-ED. There would appear to be merit to us in the IAASB continuing to consider the incorporation of a more holistic and integrated stand-back model throughout the suite of ISAs.

*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):**

ED-240 in several places appears to be more designed for the audit of large complex entities. We have concerns that the IAASB is nudging auditors to make use of forensic experts and away from them exercising professional judgement as to whether the use of such forensic experts is required based on the specific facts and circumstances. This is illustrated by the various references to forensic expert-related content. The involvement of forensic experts does occur and such expertise is available in the larger firms, however, other audit firms are not as likely to have such in-house expertise and this may not be easily accessible externally in the given jurisdiction.

#### *Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>2</sup> ISA 220 (Revised),<sup>3</sup> ISA 315 (Revised 2019), ISA 330,<sup>4</sup> ISA 500,<sup>5</sup> ISA 520,<sup>6</sup> ISA 540 (Revised)<sup>7</sup> and ISA 701<sup>8</sup>) to promote the application of the ISAs in an integrated manner?

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

**Overall response:** [Neither agree/disagree, but see comments below](#)

#### **Detailed comments (if any):**

We believe there remains further scope for improving such linkages. In particular:

- we would highlight as per our response to question 2 above, the need to cross-refer to the content in ISA 200 on document authenticity.
- as noted in our response to question 3 the interaction between the requirements of ED-240 and ISA 315 could be improved.

#### *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:** [No \(with no further comments\)](#)

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

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

<sup>4</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>5</sup> ISA 500, *Audit Evidence*

<sup>6</sup> ISA 520, *Analytical Procedures*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

*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):**

Yes, we believe that the proposed effective date would provide sufficient time to support effective implementation of the ISA.