

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)	Riksrevisionen (Swedish National Audit Office)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Alexandra Popovic
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Alexandra.popovic@riksrevisionen.se
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.	Europe
	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.	Public sector organization
	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: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

We agree with the statement in paragraph 2 which states the following:

“The auditor’s responsibilities relating to fraud when conducting an audit in accordance with this ISA, and other relevant ISAs, are to: (Ref: Para. A1)

(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.”

Though we have identified requirements throughout the that are not totally aligned with paragraph 2. This could lead to uncertainty about the auditor responsibilities.

The reason for the uncertainty is that the requirements does not consequently use the term “material misstatement of fraud” in the requirements. Instead, it sometimes only refers to “fraud” or “misstatement of fraud”.

One example is the requirements relating to risk assessment. Paragraph 26 states the following:

“In applying ISA 315 (Revised 2019), 14 the auditor shall perform the procedures in paragraphs 27–39 to obtain audit evidence that provides an appropriate basis for the: (Ref: Para. A44) (a) Identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels, taking into account fraud risk factors; and...”

Paragraph 26 is followed by requirements related to understanding the environment and the entity. These requirements are more broadly formulated. This leads to a wider scope than understanding the environment of the entity to assess the risk of material misstatement due to fraud. For example, paragraph 39 states that the auditor should conclude if there are any deficiencies in the internal control for **detecting fraud**. In paragraph 39 there are no references to material misstatements, just fraud which we interpret as any fraud. Such requirement would require an enormous effort for the auditor to be able to conclude on that. The question is whether this is relevant of the purpose of the audit.

Our suggestion is that paragraph 39 should refer to material misstatements due to fraud. We also suggest that IAASB goes through all the requirements and application material ensuring that the

auditor focuses on the risk of material misstatement due to fraud and aligned with the auditor responsibilities as stated in paragraph 2.

Application material for auditor responsibility

In paragraph 7 the standards state that the auditor shall consider any information received about suspected fraud. The application material (A10) states that the auditor should also consider information received from external sources or whistleblowers. The auditor is guided to perform certain procedures based on the information. These procedures may be overwhelming and specifically performing the procedures in paragraph 55, before even concluding on whether the information is relevant for the audit. Specifically point d) in paragraph 55.

There are numerous false accusations, and specifically it could be so in the public sector. This could lead to a waste of audit resources and auditors focusing on issues not relevant to the audit.

Our suggestion is that the requirement and application material should clarify that the auditor

- should assess whether the information is relevant to the audit before doing any additional procedures.
- can dismiss the information if not relevant to the audit.

Application material for risk assessment

Our concern is that the application material drives the auditor to do more work than necessary for the audit. Below are a few examples:

- The application material for the **understanding of the control environment** suggest that the auditor should gather information about how the entity whistle blow system functions. This may be totally irrelevant if there are no risks and never have been any issues with fraud.
- The **team discussion** is an important part of the risk assessment. The application material states that the team may involve experts with forensic skills. These could analyze data to identify any suspected fraud. First of all we do not think that the standard should refer to a specific expertise where there is no universal definition of what forensic is. This could also be interpreted differently as in many jurisdictions' forensics are only used in investigative work. Which is not something an auditor should do. We suggest that the standard uses a neutral terminology instead, just referring to experts with analytical skills. We also question whether the audit should "look for" suspected fraud.

Further on, the application material states that the team could base their risk assessment on asking "what if" questions. We think that this is a wider scope of assessing risks than what is stated in ISA 315 referring to assessing inherent risk, probability and consequence.

We do understand that the application material is not mandatory though it scopes the intention of the requirements. The application material "drives" the audit in certain directions. We believe that the application material is not in proportion to the application material and guidance for team discussion and risk assessment related to other risks. This may also come across as risk related to fraud are more important than any other risk.

Our conclusion is that the requirements combined with the application material related to risk assessment may lead the auditor to perform more procedure than necessary. There is also a fine line between gathering information and performing procedures to assess risk and doing "forensic

investigations”. We believe that the standards drive the auditor toward doing more investigative work which may touch upon crime investigations.

We suggest that the standard

- clarifies that the procedures we perform in the risk assessment may vary between audited entities. We might need to do more in environments where we potentially have higher risk including fraud and less if not so.
- tones down the forensic and investigative aspects.

Fraud relevant for the auditor

The standard gives examples of types of fraud that may be relevant to an auditor and clearly points out that there must be an intention behind the act. All the guidance and the requirements insinuate that it refers to fraud committed by management or employees. In the definition of fraud (paragraph 18a), third parties are also included as possible perpetrators. The addendum on third parties does not fit logically with all other guidance on fraud relevant to the auditor. Additionally, it can be a problem for the public sector where our auditees pay out huge sums based on third-party data. Third party in collusion with employees/management is one thing but third party alone is not logical. They cannot intend to manipulate the financial reporting or misuse assets (as described in the standard). This extended approach could mean that, for example, the following risks could be classified as fraud risks:

- burglary with the aim of stealing valuable assets
- cybercrime where the intent is to steal funds
- incorrect information in the grant application or tax return.

We therefore believe that it must be assumed that it is management or employees who commit irregularities. In cases where the definition also includes third parties, the guidance should be expanded around third parties and clarify the difference between other risks and risk of fraud.

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 no further comments)**

Detailed comments (if any)

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):

See above under Auditor responsibilities

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

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):

Paragraph 55 states:

"If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter in order to determine the effect on the audit engagement. In doing so, the auditor shall:

a) Make inquiries about the matter with a level of management that is at least one level above those involved and, when appropriate in the circumstances, make inquiries about the matter with those charged with governance;

b) If the entity has a process to investigate the matter, evaluate whether it is appropriate in the circumstances;

c) If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances;

d) Determine whether control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud.

The writing does not contain references to material misstatements of fraud but any “fraud”. It is quite extensive efforts that we are expected to carry out before we have even assessed whether the fraud (suspected fraud) is relevant to the audit. This applies above all to d), which means that we must assess whether the internal control is effective.

Our conclusion is that paragraph 55 may mean that we need to do more work than the audit requires. Our suggestion is that it should be sufficient to carry out a–c to assess whether the irregularity is relevant to 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?

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

(See ED, paragraphs 61–64)

Overall response: [No response](#)

Detailed comments (if any):

No comments

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

Detailed comments (if any):

It is unclear whether the question insinuates introducing mandatory KAMs for non-listed entities. If so the question needs to be addressed more broadly.

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 \(with no further comments\)](#)

Detailed comments (if any):

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: [Disagree, with comments below](#)

Detailed comments (if any):

We believe that the standard in total drives the auditor toward performing procedures that may not be necessary for the audited entity where the risk is generally low. It seems to be written for an audit of a listed company which operates in a complex environment where fraud may be an issue.

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)

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

Detailed comments (if any):

Our conclusion is that the standard includes too much text (copy and paste) from other ISAs, specifically ISA 315. We do not see how this brings any value. In addition, there is also a risk of developing different interpretations of the same requirements as stated in for example ISA 315 vs. the same requirement stated in ISA 240.

have identified that the interpretation of the requirements in 315 are not the same as in the standard 315.

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 response](#)

Detailed comments (if any):

No comments

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):

No comments

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*

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.