

## 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)	Accountancy Europe
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Harun Saki
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	harun@accountancyeurope.eu
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).	Accountancy Europe unites 50 professional organisations from 35 countries that represent 1 million qualified accountants, auditors and advisors.

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

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

#### Auditor's Responsibility

*All parties in the financial reporting ecosystem have a role to play in addressing fraud risks related to financial statements. The efforts of the IAASB should focus on responding to valid expectations of stakeholders and evolving business environment. Proposed changes to auditing standards should be clear and proportionate, reflecting the fact that the primary responsibility for the prevention and detection of fraud rests with the management and TCWG of the entity.*

*There is a certain level of inconsistency in stakeholders' understanding with regards to the purpose of the financial statements audit. We believe that the IAASB has a further role in actively informing stakeholders (i.e., through targeted outreach and including more specific text in ISA 240), especially as to the full extent of the inherent limitations the auditor faces. In this regard, revising ISA 240 is a positive step to clarify auditor's responsibilities although as noted in the explanatory memorandum, the proposals will not expand the role and responsibilities of the auditor relating to fraud.*

#### Inherent Limitations

*The ED-ISA 240 lacks application material regarding limitations of an audit that cannot be overcome. Such inherent limitations include:*

- *Auditors generally do not have legal powers to search for and seize documents from within the entity, from other entities or individuals*
- *Auditors generally do not have the legal powers to interrogate individuals within the entity or from outside the entity, under oath or otherwise.*
- *Management has the documents and records under its control and can therefore choose to conceal documents and records from the auditor without the auditor becoming aware of such concealment*

#### Third-party Fraud

*The proposed definition of fraud should be clear with regards to third parties. In any case, it cannot go beyond third parties with which the audited entity has an engagement. It should also be clarified that the auditor's role is not to detect fraud committed by third parties but is instead directed to identifying risks of material misstatement of the financial statements arising from fraud. In this context, the example provided in paragraph A16 about a cybersecurity breach involving unauthorized access by a third party will not necessarily be relevant for a financial statements audit engagement.*

*In the context of third-party fraud, inherent limitations are far greater as the auditor typically does not have any legal or contractual relationship with the third party.*

*Non-material fraud*

*Fraud is a broad legal concept and auditors do not make legal determinations of whether fraud has occurred. Rather, the auditor's interest specifically relates to acts that result in a material misstatement of the financial statements and do not generally extend to acts of non-material fraud. The courts are the ultimate arbiters of whether fraud has been committed or not.*

*ED-ISA 240 could better explain the auditor's approach towards actual or suspected non-material fraud.*

*For example, paragraph A11(a) of the ED-ISA 240 refers to concepts like "insignificant fraud" (instead of non-material) and "qualitatively material fraud irrespective of the amount" and these concepts need to be clarified.*

*Regarding qualitatively material fraud committed by management, greater clarity around the expected work effort, including practical, real-life examples of when a quantitatively immaterial fraud may be considered qualitatively material, would be useful to avoid misinterpretations.*

*The expectation gap*

*As a general principle, Accountancy Europe strongly supports revising professional standards to enable effective improvements in audit quality and thus reducing the "expectation gap".*

*Stakeholders will most likely presume that the revision of ISA 240 has been a response to recent corporate failures. However, most of the proposals in the ED-240 simply provide clarification of existing requirements in a number of areas and reflect existing practices. Hence, those changes will not lead to fundamental changes in the auditor's engagement performance.*

*There are other actions outside the remit of IAASB that are needed to narrow the expectation gap. These may include education, sharing of lessons learned and performing root cause analysis for major fraud cases.*

*Finally, as noted in [our publication](#) (February 2021), auditors could be required to report publicly their conclusion on the management's statement on fraud risk management. We recognize that this is not within the IAASB's remit. Such an engagement could be done as part of the financial statements audit or in a separate assurance engagement and would necessitate auditors to consider the internal controls over financial reporting as a whole.*

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

**Detailed comments (if any):**

*We agree that the auditor needs to maintain professional skepticism throughout the audit and remain alert to conditions that may indicate possible fraud. This is a behavioral matter that can be achieved by proper training and promoting such a culture within a firm rather than reminding the importance of professional skepticism in topical ISAs. Such overarching principles should only be included in ISA 200 which explains overall concepts and objectives in a financial statements audit.*

*In addition, there is a risk that the list of exemplary conditions (e.g., paragraph A26), that may trigger the auditor to further investigate a matter, may be considered as a checklist and thus as an implicit requirement in every audit and for every record or document seen by the auditor. Although the inclusion of examples is often helpful, it should be clarified that the implications of the existence of such conditions will depend on the engagement circumstances and auditor's professional judgement.*

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

**Detailed comments (if any):**

*Requirements in ISA 240 should promote an integrated risk-based approach with respect to fraud and, therefore, the requirements in ISA 315 (Revised 2019) should not be repeated unless there is a specific procedure to be performed in addition to or alongside those required by ISA 315 (revised 2019). We see that this principle is not always followed in ED-ISA 240 (for example, in proposed paragraphs 26 and 33).*

*The implications of fraud committed by management are generally more severe and their detection is subject to greater inherent limitations compared to fraud committed by employees or third parties. Therefore, the risk of fraud involving the management of the entity requires a different audit approach and we believe that this difference is not properly addressed in ED-ISA 240.*

*In this regard, the auditor should consider management's tone at the top with regards to fraud, and where applicable, oversight of those charged with governance on the entity's fraud risk management. This should include understanding of the entity's whistleblower program if one exists and inquiries of key individuals responsible for the program, as part of auditor's risk assessment and identification.*

*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)*

---

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

(See ED, paragraphs 55–59 and 66–69)

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

**Detailed comments (if any):**

*As per paragraph 7, which impacts the understanding of the proposed definition, suspected fraud includes allegations which may be unjustified or clearly superficial. This is too onerous and will lead to impracticalities.*

*There needs to be a clear distinction between persuasive allegations and possibly vexatious allegations. A good first step for any auditor, when faced with a suspected fraud or an allegation, would be to obtain an understanding of the matter by, for instance, reviewing relevant whistleblower files and inquiring individual(s) responsible for the entity’s whistleblowing program.*

*We understand that paragraphs 55-59 are conditional requirements applicable to cases where the auditor identifies an instance of fraud or suspected fraud. The implications of such an identification will be different if the management had not been aware of the instance prior to the auditor’s identification. In such cases, the auditor should consider if this is an indicator of a significant internal control deficiency and consider the need to revise their risk assessment. This distinction is not recognised in ED-ISA 240.*

*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):**

*While we recognize that the enhanced transparency in the auditor’s report is in the public interest, the existing KAMs mechanism in ISA 701 sufficiently covers fraud-related matters that were of most significant in the audit. In this regard, there is no added value in having a sub-section under KAMs specific to fraud. This may lead to confusion for the users of financial statements and widen the expectation gap with regards to the role of the auditor in addressing fraud.*

*There is also a risk of creating an expectation from the auditor to provide original information in the auditor’s report that has not been disclosed by the entity in its financial statements or elsewhere. This may not be legally possible, due to confidentiality requirements.*

*In addition, the communication of the absence of a KAM related to fraud in the auditor’s report will be interpreted differently by users, some of which may wrongly read this as a conclusion that no instance of fraud has occurred or been identified during the period covered by the financial statements. Such a communication could also have the unintended consequence of having boiler plate texts that do not include any engagement-specific information and hence do not deliver any added value.*

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):**

*As mentioned in our response to Question 5, there is a risk that the auditor will become through certain KAMs a provider of information not disclosed by the entity if the transparency requirement is expanded to PIEs. Non-listed PIEs are not ordinarily subject to the same reporting requirements with listed entities and do not have to publicly disclose for instance, any information that may have an impact on their share price.*

*Therefore, ISAs as global auditing standards should require consideration of KAMs only for listed entities (or publicly traded entities as per the IESBA's new PIE definition). Standard-setters and regulators can expand the scope of this mechanism for their jurisdictions, depending on their respective needs and reporting requirements for different types of companies. In the European Union, for example, KAMs are communicated as appropriate by auditors of PIEs since 2017.*

*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):**

*As noted in the explanatory memorandum, there are already stand-back requirements in a number of ISAs and assessed risks of material misstatement due to fraud are already part of auditors' overall consideration when applying these requirements.*

*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):**

*The circularity created by the links to other ISAs in an ISA hampers the scalability and understandability of the ISAs which should be considered altogether as a set of professional standards.*

*Although the ISA for LCE has been designed for less complex entities, ISAs are still applied to smaller entities often audited by small and medium sized practitioners (SMPs) and thus it is very important to maintain the scalability of ISAs.*

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

**Detailed comments (if any):**

*As noted in our response to earlier questions, ISAs should be considered as an integrated single set of standards. Therefore, reference to another ISA should be made only when there is a specific procedure to be performed in addition to or alongside those already required.*

*In particular, the relationship between ED-ISA 240 and ISA 250 (Revised) is not clear. ED-ISA 240 should clarify that even though fraud constitutes an instance of non-compliance with laws and regulations, auditors are not required to apply ISA 250 (Revised) to identified or suspected fraud in addition to ISA 240 unless the additional responsibilities described in ISA 250 (Revised) are relevant in the circumstances.*

*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):**

---

<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*

*We note that the term “fraud” is often used where it would be more appropriate to use the term “material misstatement due to fraud” or “risk of material misstatement due to fraud” and therefore urge the IAASB to ensure that correct terminology is used throughout the standard. This is particularly important not to widen the expectation gap.*

*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):**

*The effective date of the revised ISA 240 should be determined together with the Going Concern and the Listed Entity and PIE – Track 2 projects. We believe that 24 months would be an appropriate time to allow implementation, including translations.*