

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)	SRA
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Pieter Mansvelder and Henk Kats
E-mail address(es) of contact(s)	pmansvelder@sra.nl and hkats@sra.nl
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.	Member body and other professional organization
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	<p>SRA unites almost 370 firms in The Netherlands.</p> <p>SRA represents - on a national and international level - the interests of these firms and the auditors, accountants and tax specialists working there. We ensure that these professionals provide quality services to SME entrepreneurs in all sectors.</p>

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:

This document contains the response of SRA to the Exposure Draft of Proposed International Standard on Auditing 240 (Revised). SRA is not a professional organization, but represents the interests of its affiliated firms. The Dutch Professional Organization of Accountants (NBA) has also submitted a response to the Exposure Draft. SRA has taken note of the NBA's first preliminary draft response and largely endorses the response of the NBA. In general, we agree with the 'positive remarks' of the NBA in their preliminary draft response and will not repeat them in our response. SRA has provided the NBA with some comments on the NBA's 'constructive critical remarks' in their preliminary draft response but does not know to what extent the NBA has adopted these comments in their final response. Therefore, we consider it necessary to

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provide the IAASB with our (additional) responses on some parts of the Exposure Draft in part B of this response template. In our response we will limit ourselves to several constructive critical remarks. However, this may lead to a different 'Overall response' to some parts of the response template as compared to the final response of the NBA. Since we do not know the NBA's final response, it is unfortunately not possible to specify these deviations.

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):

ED Paragraphs 8, 14 and 18. Fraud is an aspect of the broader concept of financial and economic crime, which also includes, for example, money laundering and corruption. We propose that the scope of the term 'fraud' in the light of ISA 240 be clarified in the definition.

ED Paragraph 10. It is not clear what is meant in paragraph 10 by 'less than persuasive audit evidence'. Is it intended that more and/or other audit evidence should be obtained with regard to the risk of a material misstatement resulting from fraud than what is understood by 'sufficient and appropriate audit evidence'?

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):

ED Paragraph 13 and paragraph 22. We propose that it be emphasized that the requirements according to the quality management system of the audit firm is leading for the auditor when making decisions about the appropriate competence and capabilities of the engagement team, including appropriate specialized skills or knowledge. In our view, it is not necessary for the IAASB to provide specific guidance on the use of forensic or other expertise.

ED Paragraph 20. We propose that the auditor should explicitly confirm that there are no 'conditions identified during the audit' that give the auditor reason to doubt the authenticity of a document or contract. This can help reduce the risk that the auditor uses too high a threshold for identifying circumstances during the audit that give rise to doubts about the authenticity of a document or contract.

The June 2023 version of the exposure draft included examples of ‘confirmation bias’ and ‘anchoring bias’ in par A25(b). Reference is now made (in par A26) to ISA 220. We recommend that the IAASB retain these useful examples in ISA 240.

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):

We make a general remark. The exposure draft of ISA 240 incorporates the relevant elements of ISA 315 and makes them specific for identifying and assessing the risk of material misstatement due to fraud. However, ISA 315 also includes requirements for applying inherent risk factors aimed at identifying the risk of material misstatement due to fraud (the factor ‘susceptibility to misstatement due to management bias or other fraud risk factors’). ISA 315 refers to ISA 240.A24-A27 in this regard. This is confusing. In our view, it is recommended that either there is a strong and clear relationship between the requirements of ISA 315 and ISA 240, or that ISA 315 also includes the auditor’s responsibilities for identifying and assessing risks related to fraud. The latter would mean that, for example, a distinction could be made between identifying and assessing a risk of material misstatement resulting from fraud (to be included in ISA 315) and responding to an assessed risk of material misstatement resulting from fraud (‘response’, for example to be included in ISA 330 or a new specific ISA).

ED Paragraph 27. The term ‘information from other sources’ is, despite the reference to ISA 315, not entirely clear. In our opinion, the application material (paragraphs A45 and A46) gives examples that do not fully correspond to ISA 315 paragraphs 15 and 16. We propose to clarify the scope of this requirement in the application material.

ED Paragraphs 26, 32 and 40. With regard to identifying and assessing a risk of material misstatement due to fraud, in our view it is not sufficiently clear what the difference and relationship is between a fraud risk factor, fraud risk and a risk of material misstatement due to fraud. Furthermore, in our view it is not sufficiently clear how fraud risk factors should be used to identify and assess the inherent risk of material misstatement due to fraud (whereby internal control may not be taken into account). This mainly concerns the application of the fraud risk factor ‘opportunities’. In this regard we note that paragraph 18(b) is not addressed in the IAASB’s request for comment. However, we do have comments on it. In our opinion, the explanation in paragraph A23 is difficult to read, partly due to the use of ‘may’ and ‘opportunities that arise from events or conditions [...] before consideration of controls.’ Taking the lack of internal control into account as an ‘event’ or a ‘condition’ seems in itself contradictory to the principle that internal control may not be taken into account.

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

See also appendix 1, page 70. This appendix (on page 75) provides examples of 'inadequate controls' as a fraud risk factor. Almost all examples can be reformulated 'positively' by changing 'inadequate' to 'adequate' or omitting the words 'lack of'. However, in that case, the 'positive' contributions of controls may not be taken into account.

We give as an example the use by an entity of a bank account for money transfers (payments and receipts). In these cases, there is normally an inherent risk of 'misappropriation of assets' (f.i. the fraudulent withdrawal of money from the bank account). The auditor must, if there are deficient controls around payment transactions, take this 'condition' into account when assessing the risk of a material misstatement resulting from fraud (despite the fact that the auditor may not, in principle, take controls into account when assessing an inherent risk). Suppose now that the auditor *does not* identify opportunities that arise from 'events' or 'conditions' that lead to a higher estimate of the inherent risk. However, because the auditor may not take into account the fact that the entity has set up internal control measures around payment transactions when assessing the inherent risk, the conclusion is - as we understand - that this inherent risk must always lead to the identification of a risk of a material misstatement resulting from fraud.

Our question based on this example is: how can the auditor - when acting according to the ISAs - arrive at the conclusion that he will not identify a fraud-related risk of a material misstatement, if there is an inherent risk of fraud but there are no opportunities that arise from events or conditions that lead to an increased risk of a material misstatement? In other words, is it conceivable that *positively formulated factors* are identified that contribute to reducing the inherent risk of material misstatement due to fraud?

Paragraph A55 is not very helpful in this respect. It states that fraud risk factors are present, but there are no 'circumstances' that lead to the identification of a risk of a material misstatement resulting from fraud. This is a 'matter of professional judgment' and can (therefore even) mean that deficiencies in internal control do not ultimately lead to the identification of one or more risks of a material misstatement resulting from fraud. This seems to contradict other explanations on this point in the exposure draft.

ED Paragraph 38 raises a number of questions, in particular because the definition of the term 'journal entries' (we will abbreviate this to JE hereinafter) is missing. The exposure draft contains the combination 'JE and other adjustments', as well as the terms 'standard JE', 'non-standard JE' and 'specific classes of JE'. There seems to be a distinction between 'routine processing of transactions' and JE. However, routine processing of transactions is also done in principle by means of journal entries. In appendix 4, page 84 at the bottom, some explanation seems to be given: 'non-standard journal entries - where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments'. However, this explanation does not apply as a definition.

In line with this, we note the following. If according to par 38(a) insight must be obtained into 'Controls over journal entries, designed to prevent or detect fraud', it is not clear whether this concerns controls that are related to JE that relate to identified risks of a material misstatement resulting from fraud, to all controls that are intended to detect or prevent fraud in general or to controls that specifically relate to the concept of JE (see above). See also paragraph A102, which discusses the GITC. The same questions apply here with regard to the scope of the insight to be obtained with regard to JE.

ED Paragraph 41. In our opinion, paragraph A111 weakens the requirement in paragraph 41 by using 'If' at the beginning of this paragraph and the relationship with 'professional judgment.' The last sentence of paragraph A111 seems to correct this, but 'ordinarily' again gives the auditor a lot of room to rebut the assumed risk. If the intention of the exposure draft is to increase the threshold for being able to rebut the assumed risk of a material misstatement resulting from fraud relating to revenue recognition, we advise tightening the formulated requirement on this point and adjusting the application material accordingly.

ED Paragraph 42. As regards paragraph 42 (concerning the risk of ‘management override of controls’), the relationship with paragraph A171 is in our view somewhat strange, because it states: The auditor may determine that certain risks of material misstatement due to fraud did not require significant auditor attention and, therefore, these risks would not be considered in the auditor’s determination of key audit matters in accordance with paragraph 62. Does this now mean that it is possible that the auditor does not pay ‘significant attention’ to the risk related to ‘management override of controls’?

Fraud or Suspected Fraud

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)

(See ED, paragraphs 55–59 and 66–69)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any):

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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):

In the Netherlands, the auditor has been required for several years to report on fraud risks in the auditor’s report issued following a statutory audit engagement. The Dutch version of ISA 700 has been amended for this purpose. The obligation also applies to non-PIEs. The auditor is required to report on the identified risks, the work performed and important observations and is encouraged to report on any findings. Based on the first evaluations after the introduction of this obligation, we identify the following points of attention for the IAASB:

1. It is important to emphasize the primary responsibility of management for preventing, detecting and correcting material misstatements resulting from fraud. This is preferably evident from the management report. The auditor reports in line with his responsibility, namely expressing an opinion on the fairness of the financial statements. There could be a discrepancy between the information in the management report and the reporting by the auditor. The relevant auditing standards (such as ISA 700, ISA 701, ISA 705 and ISA 720) should provide for this.
2. There may be potential issues regarding the confidentiality of the information that the auditor reports, if the report addresses company-specific situations.

3. There is a risk that auditors will start reporting in the form of ‘boiler plate’ texts, which have also been created from a compliance, legal and/or quality management perspective.

We recommend that the IAASB addresses these points of attention in ISA 240.

6. In your view, should transparency in the auditor’s report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?

(See EM, Section 1-H, paragraphs 76–77)

(See ED, paragraphs 61–64)

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

Detailed comments (if any):

We refer to our detailed comments on part 5.

Considering a Separate Stand-back Requirement in ED-240

7. Do you agree with the IAASB’s decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

(See EM, Section 1-J, paragraphs 107–109)

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

Detailed comments (if any):

It is desirable to include a separate ‘stand-back procedure’ in ISA 240. In many well-known fraud cases, it subsequently transpires that there were multiple ‘signals’ that pointed to (a suspicion of) fraud. We believe that it helps the auditor to specifically evaluate the audit information obtained from the fraud perspective, precisely with regard to the risks of a material misstatement resulting from fraud identified by the auditor. The auditor has recognized these risks and therefore pays special attention to them in the audit. In our opinion, this deserves careful consideration in the form of a separate ‘stand-back procedure’.

Scalability

8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities, given that matters related to fraud in an audit of financial statements are relevant to audits of all entities, regardless of size or complexity)?

(See EM, Section 1-J, paragraph 113)

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

Detailed comments (if any):

In our opinion, the last sentence of paragraph A74 raises questions in relation to the requirements in paragraph 34. If the entity does not have a supervisory authority, the auditor must discuss almost all elements of paragraph 34 with management. However, the last sentence of paragraph A74 seems to suggest otherwise ('In these cases, there is ordinarily no action on the part of the auditor [...]').

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):

We refer to our detailed comments on part 3.

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

Detailed comments (if any):

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Translations

11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.

Overall response: [See comments on translation below](#)

Detailed comments (if any):

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*

We expect no translation issues.

Effective Date

12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the Going Concern project and the Listed Entity and PIE – Track 2 project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Would this provide a sufficient period to support effective implementation of the ISA?

(See EM, Section 1-J, paragraphs 115–116)

(See ED, paragraph 16)

Overall response: [See comments on effective date below](#)

Detailed comments (if any):

We support the proposed timeline.