

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)	Kammer der Steuerberater:innen und Wirtschaftsprüfer:innen, KSW
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Gerhard Prachner
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	gerhard@prachner.at internationales@ksw.or.at
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).	

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):

In general, the proposed revision of ISA 240 is a positive step towards a better understanding of aspects, circumstances, and challenges of all sorts of fraud affecting the fair presentation of financial information and the role played by an auditor in this regard. However, other parties, particularly management and those charged with governance (TCWG), undoubtedly play a particularly more important role than the auditor in combating fraud.

We propose that the efforts of the IAASB should focus on responding to valid expectations of stakeholders and evolving business environment. Any suggested 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 what the purpose of the financial statements audit is. We believe that the IAASB has a further role in actively informing stakeholders (i.e., through targeted outreach and including specific text in ISA 240), especially as to the inherent limitations the auditor faces.

This revision of ISA 240 along with more reporting requirements for the auditors bears some risks. This is because there is no regulatory requirement for the management to make a public statement regarding the effectiveness of internal controls over financial reporting, including with respect to fraud, and because TCWG are not responsible for reporting about its role of monitoring such internal controls.

One can see the consequence that the revised standard may widen the expectations gap by responding to potentially evolving market needs but may not contribute to an overall better financial reporting ecosystem that is free from material misstatement.

The clear presentation of the individual aspects of fraud and suspected fraud (including allegations of fraud) is a helpful point to understand the definition of fraud according to the ISA.

The revised section “Introduction” of ISA 240 creates high expectations regarding more detailed explanations of the auditor’s responsibility including a more detailed explanation of inherent limitations. We suggest rewording the section “inherent limitations” to “inherent limitations of an audit” and provide more guidance about the auditor’s responsibility and requirements. Regarding the wording in ISA 240.9 -11, we have the following comments:

- Responsibility to obtain reasonable assurance is not diminished by a higher detection risk (9.) - The auditor’s role is not to detect fraud but is instead directed to identifying risks of material misstatement of the financial statements arising from fraud. We recommend that this statement in

an audit standard should either in a positive way address the efforts an auditor has to make (by reference to other sections in the standard) in order to achieve this goal or to remove this sentence because it may bear the risk of misunderstanding (higher detection risks are not a reason to reduce audit procedures but instead to plan and execute further audit procedures). It is stated that there is an unavoidable risk of undetected material misstatements, but still the auditor shall not be satisfied by “less than persuasive audit evidence” (10) - The message of this statement is unclear – together with Para. A 12 it leaves room for interpretation and gives no clear guidance.

- Management Fraud is harder to detect. (11) - This point depends on the quality of the internal control environment established by the management and overseen by TCWG. We recommend connecting this point to ISA 240.3 regarding the primary responsibility for the prevention and detection of fraud of the management and TCWG.

To improve the linkages between this standard and other ISA, we suggest including in Appendix 5 all relationships to other ISA as explained in the “non authority guidance fraud lens – interactions between ISA 240 and other ISAs” and add the ISA 220 regarding the aspect of consultation.

ISA 240.10 explains that the auditor should not be satisfied with audit evidence that is “less than persuasive” / A 12 however only explains why it is hard to detect false audit evidence but does not explain factors that make audit evidence “less than persuasive”. We want to highlight that this kind of statement in general is contradictory to the overall requirement of professional skepticism and gives no additional helpful guidance.

We suggest clarifying the links between third party fraud and the scope of audit as well as the links between non-compliance with laws and regulations and scope of audit.

For example, A52 sets out examples for third party fraud. This is a very broad subject that should be emphasized. Risk factors are hardly to be obvious, and it should be clarified that the auditor should base his risk assessment on the risk evaluation of the client, otherwise this cannot be covered sufficiently in an audit.

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):

Comments relating to para. 12:

We appreciate the clarification and more extensive explanations as further elaborated in the explanatory memorandum.

Comments relating to para.13:

Also, we appreciate the clarifications regarding the extent of professional judgment that it is to be exercised during all phases of the audit.

However, we note, that the statements made in para. 12 and 13 are of a very fundamental nature and one could very well argue that such general statements should be included in ISA 200 that addresses such overarching matters without being prescriptive of specific procedures or requirements.

We note that the response template does not cover para.16 through 18, which include effective date, objectives, and definitions.

Comments relating to para.18 (Definitions):

While we have not noted any flaws or needs to comment, we believe that the definitions of fraud can be viewed differently in different jurisdictions as the underlying legal concept differs. Even attempted fraud may be legally punishable. Please refer to Question 4 for further comments.

Regarding para.19 through 21:

We do not see a specific need to comment on the content of the para. itself and the application material that is referred to. The application material repeats most of what is already standard guidance and literature and we do not suggest any changes to the content.

However, one may find it easier to be provided with a more detailed link from the application material to the respective requirement in the standard itself as the only link from the application material to the standard is the heading covering all paragraphs from A24 to A32.

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: [Agree, with comments below](#)

Detailed comments (if any):

Certain audit procedures are elaborated in parts of the standard, suggesting that their main or predominant purpose may be the detection of fraud. This is however not appropriate as such procedures also serve numerous other important aspects of performing an audit. We therefore consider it more appropriate to include the details and scoping of such procedures in ISA 500 where all other audit procedures are discussed. This holds particularly true of the journal entry test and the analysis thereof which is a procedure

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

mandated in ISA 240 but should be performed in any case, irrespective of any concerns regarding fraud and can therefore not be differentiated from other audit procedures included in ISA 500.

The same holds true with respect to accounting estimates and significant transactions outside the normal course of business which may have completely different reasonings and backgrounds e.g. agreements among shareholders, regulatory requirements or tax matters which have no connexion whatsoever to suspected or actual 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: [Agree, with comments below](#)

Detailed comments (if any):

We suggest that the link to IAS 260 should be more clearly established and not just by revising a table attached to ISA 260 and to add language that the means and ways of communicating should follow the guidance provided in ISA 260.

We noted that the application material in A189 includes a reference to IAS 250 revised, which is not included in the earlier section of the application material. It may therefore be misleading, as it suggests that ISA 250 revised may only be applicable to reporting to an appropriate authority outside the entity, while ISA 250, dealing with considerations of law and regulations in the audit of financial statements is of course also applicable to reporting to management and TCWG. We suggest to clarify this by including a brief reference to ISA 250 also in the application guidance sections A182 to A187. Also, footnote 90 should include a reference to para. 29 of ISA 250 revised is this the underlying ISA and not only the application material included in ISA 250 revised paragraphs A28 through A34.

Also, we noted that the distinction between alleged, suspected, and actual (when proven) fraud does not appear to be sufficiently clear and therefore the consequences attached to such a distinction may be ambiguous.

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.

Furthermore, the inclusion of fraud cases in the auditor's report is a highly sensitive area that could be in conflict with legal confidentiality obligations. In most cases, fraud topics would be grouped under ISA 701.14 (Circumstances in which a matter classified as a material audit matter is not communicated in the auditor's report), particularly because the adverse consequences of such a form of communication would reasonably be expected to outweigh the benefits in the auditor's report public interest prevails. In many cases, the fraud is likely only suspected or not completely transparent. Therefore, the proposal to expand the KAM section by adding "including fraud matters" in the heading is extremely misleading and cannot be supported.

In particular, we point out that including an explicit statement that there are no key audit matters related to fraud is completely new and unusual. It is not the task of an auditor's report to write about things that are not relevant and/or did not occur during an audit. This kind of KAM would create the risk of expanding the expectation gap to an unacceptable level. In addition, the communication of the absence of a KAM related to fraud in the auditor's report could have the unintended consequence of having boiler plate texts that do not include any engagement-specific information. Such a communication will be interpreted differently by users some of which may assume that no instance of fraud has occurred or been identified during the period covered by the financial statements.

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):

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 in jurisdiction then may expand the scope of this mechanism 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 according to article 10 of Regulation (EU) No. 537/2014.

This would lead to overemphasize fraud in the audit of financial statements in general and in particular for 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)?

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

Detailed comments (if any):

In principle we agree with the Scalability Considerations in EM paragraph 113. However, 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. This may lead to issues for SMPs to scale down the audit approach.

What we are missing is a clear reference that in an audit of small and non-complex entities often top management (owner- manager) might be involved in transactions that are indicative of fraud or suspected fraud.

We did not find any scalability considerations in relation to inquiries of management and inconsistent responses and other examples of conditional requirements. (see EMpara113b).

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

Detailed comments (if any):

We agree with the clarification and reinforcement of the relationship between ED-240 and other ISAs and also with the statement ED-240 should, not repeat the requirements and application material in other ISAs. Having said that, we would have expected a lot of conforming amendments in the other ISAs, because fraud related matters are now addressed in ISA ED-240. Scanning the conforming amendments we did not see any curtailments in the other ISAs.

We therefore believe that linkages to other ISAs are too detailed.

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):

We note that the term “fraud” is often used where it would actually be 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.

In addition, the term “fraud” could have different meanings in various jurisdictions.

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*

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):

We noted that some of the language in the standard, especially in the application material, has been drafted using overly complex structures of sentences and the references within the standard and to related materials. This typically gives rise to inconsistencies in translation. We therefore recommend reviewing the wording of such paragraphs and to simplify - where possible - the structure of the text.

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):

While we have not noted any flaws or needs to comment, we believe that the effective date should be long enough after the publication of an ISA 240 Revised to ensure a proper transition even in jurisdictions where endorsements through authorities or potentially even legal proceedings are required.

