

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	ASEAN Federation of Accountants (AFA)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Edward Tanujaya
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Geographical profile that best represents your situation (i.e., from which geographical perspective Asia Pacific are you providing feedback on the ED). Select the most appropriate option.	
	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 of other professional organization
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	AFA is the regional body in Southeast Asia and also IFAC Network Partner.

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:

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-240 discloses the responsibility of the auditor in relation to fraud ahead of management's and those charged with governance's responsibility. This may result in skewed reading of where the primary responsibility lies. Reference is made to ISA 250 (Revised), where the standard states first that the responsibility for the compliance with laws and regulations lies with management and those charged with governance (TCWG) before specifying the responsibilities of the auditor. This would present a more coherent flow of information by stating the primary responsibility prior to stating the scope of an auditor's responsibility

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):

While ED 240 could reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements, in general, we disagree with the removal of the words "*unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine*" under paragraph 20 of ED 240.

This removal may create confusion regarding the auditor's responsibility in relation to authenticity of documents and also potentially create the impression that the auditor is required to ensure that all documents and records are authentic, which would be excessive and not practicable. An audit engagement is different from an investigation engagement where the latter's starting point is to assume that evidence is not credible.

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](#)

We recommend that revisions be built on the foundational requirements in ISA 315 (Revised) and provide specific fraud related considerations in executing those required risk assessment procedures. The enhanced requirements for the engagement team discussion may facilitate more meaningful discussions regarding fraud risk factors, which, in combination with the changes proposed for other risk assessment procedures, may lead to a more informed identification and assessment of the risks of material misstatement due to fraud.

Guidance on other considerations over unusually large transactions and key management estimates, which are areas susceptible to fraud, would also be helpful. More guidance on how analytical procedures could be more effectively carried out to comply with the requirement would be helpful. There should be a strong linkage between understanding the entity and its environment, and such analytical procedures.

A strong ethical corporate culture can serve as an effective fraud deterrent. Considering that assessing culture could be challenging due to a certain degree of subjectivity involved, we are supportive of the enhancements in ED-240 that incorporate aspects of corporate culture that are observable in the auditor's risk assessment.

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](#)

We would like to suggest the IAASB could consider including the definition of suspected fraud in paragraph 18 to provide better clarity of the term.

Also, it would be challenging in situations where fraud is perpetuated by senior management or personnel who play a significant role in internal control. More guidance is needed in assessing the effects in such situations, for example, whether a controls reliance strategy is still appropriate. Also,

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

more guidance on how the auditor's assessment would be affected in the absence of management's process and actions would be important.

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):

The proposal to use the KAMs section of the auditor's report to increase transparency about matters related to fraud is reasonable and preferable to having a stand-alone section of the auditor's report. However, the existing title "Key Audit Matters" should continue to be used instead of modifying it to "Key Audit Matters Including Matters Related to Fraud". Doing so might give the wrong impression that the auditor has a dedicated task to detect fraud in the audit and must include fraud discussion under key audit matters. This might deepen the already existing misconception on the role of the auditor over fraud. The requirement in paragraph 64 of ED-240 may further increase the expectation gap. The statement that there are no KAMs related to fraud may be misconstrued as an assurance that there is no fraud and is in contradiction with the inherent limitations of an audit as described in paragraphs 10-11 of ED-240. As such, we recommend that this requirement be removed.

In addition, it would be helpful for the IAASB to include illustrative examples of KAMs that have a fraud element.

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 understand the idea of extending the requirements to entities other than listed entities. However, there may be potential consequence of giving rise to less meaningful KAMs if the requirement is extended to all PIEs as some entities that may fall into the broad categories of the PIE definition may be non-complex in nature or share common risks.

As such, we recommend that the reporting of matters relating to fraud introduced in ED-240 be limited to publicly traded entities and complex PIEs. Non-publicly traded entities and less complex PIEs can still opt for voluntary disclosures in the audit report as per paragraph 5 of ISA 701 (Revised).

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):

If an auditor appropriately applies all the requirements across the ISAs, there is no need for a separate stand-back requirement in ISA 240 (Revised).

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):

We note the requirements and application materials are more focused on entities with formal set-ups and a proper internal control environment. More guidance is required to address the conditions such as:

- Extent of work relating to understanding control environment and testing controls in audits where substantive approach is adopted, which is common for audits of smaller entities.
- Addressing management override of controls in less formal set-ups where directors are shareholders, or when directors are not readily accessible.

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: Agree (with no further comments)

Detailed comments (if any): -

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):

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):

Translation must be made without creating further complexities as ED 240 should be applied globally.

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](#)

In principle, the effective date should be aligned with the effective dates of all three projects.