

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW), Germany
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Torsten Moser, Wolf Böhm
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Wolf Böhm
E-mail address(es) of contact(s)	Torsten.moser@idw.de Wolfgang.boehm@idw.de Ellen.krekeler@idw.de
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.	Jurisdictional/ National standard setter
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Information, if any, not already included in responding to the questions in Part B:

June 20, 2024

Dear Tom and Willie,

We would like to thank you for the opportunity to respond to the IAASB's Exposure Draft: 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 (hereinafter generally referred to as "the draft").

As we mentioned in our comment letter dated February 1, 2022 on the IAASB Discussion Paper: Fraud and Going Concern in an Audit of Financial Statements (hereinafter referred to as the "our comment letter on the Paper"), we very much support the initiative of the IAASB to explore the auditor's responsibilities in an audit of financial statements for fraud, because major instances of fraud have resulted in the public, and therefore legislators and regulators, calling the efficacy of audits in relation to fraud into question. We also very much welcome that the IAASB has stayed within its remit – that is, to deal with fraud in the context of the overall objective of an auditor, which is to obtain *reasonable assurance* that the *financial statements* are free of *material misstatement*, the key constraints on the remit in this context being obtaining reasonable assurance, the limitation of the responsibilities of the auditor in relation to the audit of the financial statements and hence misstatements of these, and that the responsibility be limited to *material* misstatements. That being said, we also recognize that when auditors discover other matters in relation to fraud during their audit, auditors have a responsibility to communicate with the appropriate level of management, and, when the matter is of governance interest, to those charged with governance and to consider whether such matters have an impact on the audit. Of course, there may be legislation and regulation in various jurisdictions requiring further communication or other actions, but these are matters that cannot be dealt with in other than at a general level within an international standard.

Nevertheless, we would like to remind you of the words of caution that we had included in our comment letter on the Paper, in which we sought to impress upon the IAASB not to oversell its newly revised fraud standard as a panacea in relation to fraud:

"Given that fact that the IAASB (and its predecessor, the IAPC) have previously revised the standard... on ... fraud a few times since the late 1990's, the IAASB needs to be particularly careful not to leave the impression that any actions it takes will more than just incrementally ameliorate supposed deficiencies in the role of auditors or audit effectiveness with respect to fraud... [The issue is an] excruciating difficult matter... of public policy for which there will never be a "silver bullet" that will satisfy all stakeholders in all respects: it is therefore incumbent upon the IAASB to seek to not "oversell" its ability to resolve these issues and to engage in a frank dialogue with its stakeholders about some of the largely intractable aspects of these issues."

We agree with the clear majority of the matters addressed in the draft. However, we do have a number of important concerns regarding the draft that we address in this response template. The main themes underlying our concerns relate to:

- Providing, in the standard, a proper understanding of the responsibilities of management regarding fraud, which exceed that of auditors of the financial statements. Such a proper understanding of the responsibilities of management informs auditor judgments about the appropriateness of management responses to alleged, suspected or actual fraud. In particular, there needs to be a clear recognition that while management is responsible for preventing and detecting immaterial frauds due to its responsibility to safeguard entity assets, this latter

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

responsibility also leads to cost-benefit considerations when management designs and maintains controls in this regard. *(Response to Question 1)*

- Given the very broad definition of fraud, further clarification (through the definitions and hence in the requirements) that auditor responsibilities are limited to detecting two types of material fraud: misappropriation of assets and fraudulent financial reporting. There is also a tendency within the draft to use “fraud” and “fraud risks” generally when risks of material misstatement due to fraud is meant. *(Response to Question 1)*
- Properly distinguishing between alleged fraud and suspected fraud, for which auditor responses and hence responsibilities must be different, while yet acknowledging that auditors cannot “ignore” alleged fraud. *(Responses to Questions 1 and 4)*
- Without in any way seeking to limit auditor liability or work effort, proper recognition of the inherent limitations of audits, which by definition cannot be overcome (or they would not be inherent) so that lay readers of the standard are not subject to information asymmetry about what auditor powers in relation to the detection of fraud are, which is important to manage stakeholder expectations about fraud detection in audits of financial statements. *(Response to Question 1)*
- A clearer delineation of when ISA 250 (Revised) applies in addition to ISA 240 so that it is clear that, unless the additional requirements of ISA 250 (Revised) apply in a particular instance, auditors are not required to apply ISA 250 (Revised) to all instances of alleged, suspected or actual frauds. *(Response to Question 1)*
- The treatment of professional skepticism in relation to whether auditors may regard documents to be authentic unless there are indications to the contrary. There needs to be a clearer distinction between the requirement in the draft of ISA 500 to evaluate the reliability of information intended to be used as audit evidence and hence the potential consideration of the authenticity of a document (when relevant), and the ability of auditors to regard documents as authentic otherwise. *(Response to Question 2)*
- Issues we have identified in which the draft is not aligned with other ISAs – in particular, ISA 315 (Revised 2019). Among other matters, of particular importance is the inconsistency in treating all risks of material misstatement due to fraud as significant risks (as newly defined in ISA 315 (Revised 2019) as being at the upper end of the spectrum of the assessed risks of material misstatement), but yet require more persuasive evidence the higher the assessed risks of material misstatement due to fraud. Similar considerations apply to management override of controls. Another important concern in this respect is the misalignment between fraud risk factors and inherent risk factors. We have also noted that reference is often made to management bias, when in fact only intentional management bias would be fraudulent and therefore covered by ISA 240. (Primarily responses to Questions 3 and 9, but throughout the responses)
- The overemphasis on risks of material misstatement due to fraud as KAMs, which will lead to skewed, biased auditor reporting on matters related to fraud when other matters may be more important as KAMs, or may lead to additional boilerplate language in the KAM section of the auditor’s report. Greater recognition may also need to be provided on legal limitations on what may be included in the auditor’s report in relation to pending or actual legal proceedings. *(Response to Question 5)*

If you have any questions or need further clarification or information, we would be pleased to be of further assistance.

Kind Regards,

Torsten Moser
Executive Director

Wolf Böhm
Technical Director, Assurance Standards

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):

Management vs. auditor responsibilities relating to fraud

As a matter of principle, the auditor's responsibility in relation to fraud in an audit of financial statements cannot be greater than management's responsibility in relation to fraud. However, management does have responsibilities in relation to fraud that go beyond those of the auditor of the financial statements. While we agree with the explanation in paragraph 3 that management has a responsibility to prevent and detect fraud, and through detection and punishment, to deter fraud, paragraph 3 does not clearly distinguish management responsibilities in this respect from auditor responsibilities as part of the financial statement audit. In particular, we believe that the draft needs to clarify that, unlike auditors of the financial statements, management has a responsibility to prevent, detect and deter all kinds of fraud as set forth in the definition of fraud, not just those frauds in relation to material misstatements due to fraudulent financial reporting or the misappropriation of assets. In addition, the draft should explain that since management is also responsible for safeguarding the assets of the entity, management responsibilities also extend to preventing, detecting and deterring immaterial fraud, including such fraud perpetrated by third parties. Nevertheless, the draft should also explain that, in line with management's responsibilities to safeguard entity assets, management is not responsible for preventing, detecting and deterring immaterial frauds to the extent that the cost of implementing and maintaining controls designed to prevent, detect or deter such frauds exceed the cost of those frauds (this does not imply that management does not have a responsibility to follow up on immaterial frauds, other than trivialities, perpetrated by specific identified individuals of which management becomes aware). These clarifications are not only important to distinguish between the responsibilities of management and of the auditor, but also to help inform auditor judgments about the appropriateness of management responses to immaterial alleged, suspected or actual fraud, including whether there are deficiencies in internal control that need to be remedied.

We agree with the statement of auditor responsibility in paragraph 2 (a), in which auditor responsibilities are related to the detection of *material* misstatements in the financial statements due to fraud. Auditors of the financial statements do not and cannot have a responsibility to detect immaterial misstatements in the financial statements due to fraud, which would cause audits to become horrendously expensive with little benefit to the users of the financial statements and may cause auditor responsibilities to exceed those of management in this respect (see paragraph immediately above). We also agree with the statement in paragraph 5 that two types of intentional misstatements are relevant to the auditor – those resulting from *fraudulent financial reporting* and those resulting from *misappropriation of assets*. Since these two types of fraud are central to understanding auditor responsibilities and these terms are used in a number of

requirements (that is, in paragraphs 29, 35, 46 and 53), in line with the CUSP drafting conventions, these terms should be defined in the definitions section of the draft so as to clearly limit auditor responsibilities to these types of fraud.

Alleged fraud vs. suspected fraud

The second sentence in paragraph 7, and paragraph A10, of the draft include allegations of fraud as a part of suspected fraud, and paragraph A10 also refers to the conflation of alleged and suspected fraud in the requirements in paragraphs 55-59 of the draft. While we agree that auditors cannot ignore allegations of fraud per se, we have a number of concerns with equating alleged fraud with suspected fraud. Legally speaking, there is a considerable difference between suspected and alleged fraud. An allegation of fraud is just an allegation: without further consideration, it does not automatically mean that the alleged fraud is suspected fraud. Suspected fraud, on the other hand, refers to an irregularity that gives rise to administrative or legal proceedings to establish the presence of fraud. In other words, suspected fraud involves reasonable grounds for believing that fraud may have occurred without yet having been able to investigate whether fraud has actually occurred. Therefore, the key difference between alleged fraud and suspected fraud is that alleged fraud needs further consideration to determine whether there are reasonable grounds to suspect fraud, whereas suspected fraud, which involves reasonable grounds for believing that fraud may have occurred, requires additional investigation to determine whether fraud has occurred. Furthermore, suspected fraud may actually involve additional responsibilities of the auditor under law, regulation, or relevant ethical requirements, whereas alleged fraud does not. Consequently, treating alleged fraud like suspected fraud as in the draft is inappropriate because auditor responses to alleged fraud and suspected fraud need to be different – that is, auditor responsibilities for alleged vs. suspected fraud are different. We also address these matters in our response to Question 4 below.

In addition, depending upon the circumstances, auditors need to do more to investigate some cases of alleged fraud than others. For example, if the auditor is more familiar with the circumstances than the alleging party, particularly in the case of obviously spurious allegations or allegations of clearly immaterial frauds by lower-level employees, then the auditor may choose to not perform further procedures after having addressed the matter with a level of management that is at least one level above those involved, appropriately considered that allegation, and documented the auditor's consideration. In other cases, when the auditor is less familiar with the circumstances, the auditor may need to perform additional procedures to determine whether the alleged fraud leads to reasonable grounds for believing that fraud may have occurred – that is, that suspected fraud exists. The draft needs to take a more differentiated approach to different kinds of allegations of fraud.

In other parts of the draft, the auditor's responsibilities for immaterial fraud are not clear (see our responses to Questions 4 and 10). This results in part from the issues arising from not having differentiated between alleged and suspected fraud as discussed above. In particular, the current wording implies investigation (rather than just consideration) of all allegations, regardless of their seriousness and how material they could reasonably be. As we point out in our response to Question 10, further lack of clarity regarding auditor responsibility for immaterial fraud results from requirements and application material formulated in such a way as to cover all fraud or suspected fraud, rather than only those that might indicate a risks of material misstatement.

Inherent limitations

We agree with the content included in paragraphs 9 to 10 of the draft and the related application material in paragraph A12 on the inherent limitations of audits with respect to fraud, because the inherent limitations described are real hindrances to auditors detecting material misstatements due to fraud. By definition, inherent limitations are inherent – that is, they exist regardless of auditor performance within the confines

of the existing powers of auditors and do not have an impact on the auditor's responsibility to obtain reasonable assurance about whether the financial statements as a whole are materially misstated due to fraud. Not including this treatment of inherent limitations would increase the information asymmetry between auditors and other readers of the standard and lead to unrealistic expectations among other stakeholders about the ability of auditors to detect fraud, which is not in the public interest. However, we do not believe that the description of the inherent limitations and their impact on the persuasiveness of evidence that auditors are able to obtain is fulsome enough to adequately reduce the information asymmetry between auditors and other readers of the draft regarding auditors' ability to detect fraud.

In particular, less knowledgeable readers will not understand the real limitations in the powers of auditors that impact their ability to detect fraud. For these reasons, we believe that the application material to paragraph 10 needs to be augmented to point out that:

- Auditors generally do not have legal powers to search for, and seize, documents from within the entity, from other entities, or from individuals,
- Auditors generally do not have the legal powers to interrogate individuals (and confine individuals for interrogation) from within the entity or from outside the entity, under oath or otherwise, and
- 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.

While the last bullet point is covered in part by paragraphs 11 and A10 in the draft, these paragraphs do not emphasize the control that management exercises over documents and records and their concomitant ability to conceal such documents and records from the auditor. We also note that paragraph A113 addresses management's unique position to perpetrate fraud, but primarily in the context of their ability to override controls. However, a key reason for management being able to perpetrate fraud is not just their ability to override controls, but also the fact that they have executive control over books and records even without overriding controls, which is why we believe that concentrating on overriding controls alone is not sufficient to explain management's ability to perpetrate fraud and why we believe that the last bullet point above is so important.

The inherent limitations noted above exacerbate the difficulty with which auditors are able to detect material third-party frauds. In particular when management or employees collude with third parties to commit fraud against the entity (e.g., third parties colluding with management or employees to misappropriate assets of the entity through collusion, including kick-backs, such as through choosing certain suppliers even though their price is higher, or their quality is less than that of other suppliers for the same price), such fraud is exceedingly difficult to detect as part of the financial statement audit because management or employees may forge or conceal documents to cover up such fraud and, in some cases, there may not be any documents within the entity to indicate such fraud. Furthermore, auditors cannot be expected to be experts in considering the quality of all of the myriads of types of goods and services provided by suppliers to entities. Auditors also typically do not have access to third parties and their documents or records, since auditors generally do not have any legal or contractual relationship with such parties. Consequently, the application material in paragraph A10 also needs to be augmented to address the particular difficulties facing auditors when seeking to detect third-party fraud.

What the draft does not address is the impact of all of the inherent limitations noted above on what reasonable assurance and persuasive audit evidence means. In line with ISA 200, paragraph 9 of the draft states that reasonable assurance is a high, but not absolute, level of assurance, but the IAASB has always skirted the issue as to what that means in the context of inherent limitations (i.e., high in relation to what?) As pointed out in the FEE Paper "Selected Issues in Relation to Financial Statement Audits" from 2007, it

cannot mean that reasonable assurance is a constant level of assurance just below absolute assurance (i.e., just below omniscience). This also calls into question the meaning of the statement in the last sentence of paragraph 10 of the draft as to not being satisfied with less than persuasive audit evidence. In this context, when is evidence “less than persuasive”? Certainly, given the inherent limitations noted above, the persuasiveness of evidence obtained regarding most potential material factual errors would invariably be greater than that obtained with respect to whether the financial statements are free of material misstatements due to the misappropriation of assets through third parties in collusion with management. Perhaps it is time that the IAASB deals with what reasonable assurance and the persuasiveness of audit evidence means in the context of the inherent limitations of audits to reduce information asymmetry between auditors and their stakeholders.

Non-compliance with laws and regulations

We take issue with the statement in the first sentence in paragraph 14 that, for the purposes of this and other relevant ISAs, fraud is an instance of non-compliance with laws and regulations, because the definition of fraud in paragraph 18(a) speaks of “to obtain unjust or illegal advantage”, which given the use of a standard inclusive “or” under the ISAs implies that some kinds of unjust advantage are illegal (e.g., unjust enrichment under the law in some common law and civil law jurisdictions) and some kinds of unjust advantage are not. If all unjust advantage were illegal, the definition would need to speak only of illegal advantage and not separately address unjust advantage. Hence, either the definition or the statement in paragraph 14 needs revision. We presume that the IAASB is not seeking to change the definition of fraud, which implies that the statement in the first sentence of paragraph 14 is incorrect. We therefore suggest that the wording be changed to read “For the purposes of this and other relevant ISAs, fraud involving obtaining illegal advantage constitutes an instance of non-compliance with laws and regulations”.

Nevertheless, we believe there needs to be a clear statement in paragraph 14 that ISA 240 applies to the auditor’s responsibilities regarding fraud and not ISA 250 (Revised) in addition to ISA 240, because otherwise the first sentence could still be interpreted to mean that auditors would need to apply both standards at the same time, which would lead to duplication of work effort. We suggest that a sentence be added after the third sentence of this paragraph as follows: “However, even though fraud involving obtaining illegal advantage 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 this ISA unless the additional responsibilities described in ISA 250 (Revised) are relevant in the circumstances.”

In this vein, the last sentence in the example in the box after paragraph A16 should be augmented to clarify that the additional responsibilities in relation to law and regulation would be covered by ISA 250 (Revised).

Other Matters

The third example in the example box under paragraph A3 of the draft suggests that management may inflate earnings to secure bank financing. In such circumstances, management often seeks to inflate net assets to secure such financing. For this reason, we suggest that the words “or net assets” be inserted after the word “earnings”.

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

Detailed comments (if any):

While we agree with the need to reinforce the exercise of professional skepticism about matters relating to fraud in the audit of financial statements and with some of the proposals made, we do not agree with some of the other proposals and address those with which we disagree in our response to this question.

We do not agree with the proposal to leave out the sentence from paragraph 14 of extant ISA 240, “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” from the beginning of paragraph 20. This sentence was viewed as essential explanatory material that represented a “negative requirement” – that is, clarification of what auditors need not do, which is not accept records and documents as genuine even when the auditor has no reason to believe that they are not genuine. The remaining requirement coupled with the application material infers that the auditor needs to check a series of conditions each time a document is used. Although the first sentence of paragraph A26 states that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified (a stipulation that could be placed within the requirements as a “negative requirement” rather than the application material), we consider that it would, in practice, be difficult for an auditor to defend an approach that involved not considering and documenting the example conditions listed. We believe this will lead to considerable, and unintended, additional work effort and cost for cases in which there are innocuous reasons for the conditions noted after having followed-up on the conditions and no other issues leading to doubt about authenticity of a document have arisen. Rather the lead-in sentence to the examples in the box after paragraph A26 should clarify that when, after following up on the conditions identified, the evidence provided by management for the existence of these conditions is unsatisfactory (such as when other issues arise that cause doubt about the authenticity of a document, including poor explanations by management), these conditions may then cause the auditor to perform additional procedures to evaluate whether a record or document is authentic.

For the same reason, the sentence that had been at the end of paragraph A27 in the June 2023 draft of the standard submitted to the IAASB (“Irrespective of the auditor’s consideration of the authenticity of the information intended to be used as audit evidence, the auditor is neither trained as, nor expected to be, an expert in the authentication of records or documents.”) is important and should therefore be reinstated. Without the inclusion of the deleted sentence, paragraph A27 reinforces the impression that the auditor performs a forensic approach in considering the reliability of the documents they use prior to other follow up. Note that this does not imply that forensic auditors should not be drawn upon when needed, but that a general requirement, or the impression thereof, is both excessive and further exacerbates the “expectation gap”.

While the wording in the deleted paragraph A24 in the draft from June 2023 probably needed revision, we are not in favor of the paragraph having been deleted entirely because auditors generally consider the integrity of management and those charged with governance as part of their decision of whether to accept or continue an audit engagement, which implies that they will also draw upon past experience in making that consideration. Furthermore, auditors are required to use the information obtained during the acceptance and continuance process during the audit (see ISA 315 (Revised 2019) paragraph 15(a) in connection with ISA 220 (Revised) paragraph 23 together with A50 and ISQM 1 paragraph 30(a)(i)). For this reason, that paragraph should not have been deleted, but replaced with better wording. We would

suggest wording along the following lines: “Although the auditor considers past experience of the perceived honesty and integrity of the entity’s management and those charged with governance as part of acceptance and continuance procedures and as such is also required to also use this information in the audit, the auditor’s professional skepticism is particularly important in considering the risks of material misstatement due to fraud because there may have been changes in circumstances.” Reference, in the application material to this proposed sentence, to the requirement in ISA 315 (Revised 2019) paragraph 16 and the application material in A39 to A41 could also be helpful here.

The wording in the first two sentences of paragraph A24 does not align with that used in ISA 200 and ISA 500, respectively, and thereby misconstrues how these standards deal with professional skepticism. Regarding the first sentence, under its definition in ISA 200, professional skepticism involves a questioning mind – not an *ongoing* questioning. Auditors do not question matters on an ongoing basis, but rather when information is considered for use as audit evidence and when considering inconsistent evidence. Hence, in line with ISA 200, the sentence should therefore be revised to read: “Exercising professional skepticism involves a questioning mind and being alert to conditions, such as information or audit evidence, suggesting that material misstatement due to fraud may exist.” Regarding the second sentence, it is the evaluation of the reliability of information intended to be used as audit evidence that requires the exercise of professional skepticism – professional skepticism does not cause the need to evaluate the reliability of information, because this evaluation is required in ISA 500 (and referenced in paragraph A27). The sentence would need to be changed to read: “Professional skepticism is exercised when evaluating the reliability of the information to be used as audit evidence...”. Furthermore, we do not understand the reference at the end of this sentence to “and identified controls in the controls activity component”. The requirement in ISA 315 (Revised 2019) does not require an evaluation of the reliability of controls in the controls activity component: ISA 315 (Revised 2019) requires an evaluation of the design effectiveness and implementation of such controls in certain circumstances. Likewise, ISA 330 does not require an evaluation of the reliability of controls in the controls activity component: ISA 330 requires an evaluation of the operating effectiveness of controls in the controls activity component when relying on those controls. At most, professional skepticism is applied when evaluating the information to be used as audit evidence about the design effectiveness, implementation or operating effectiveness of those controls, but that is already covered by the first part of the sentence in the draft. We therefore suggest that “an evaluation of the reliability of controls in the controls activity component” be deleted.

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

Detailed comments (if any):

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

Overall, there is a close relationship between the draft and ISA 315 (Revised 2019) and the draft does build on the foundational requirements in that standard. However, there are a number of issues with the structure and content of the draft that cause it to be inconsistent with ISA 315 (Revised 2019) and therefore confusing. Our response to this question focusses on the matters with which we disagree, rather than on those with which we agree.

Inherent risk factors vs. fraud risk factors

We believe that the introduction of inherent risk factors through the revision of ISA 315 as set forth in paragraphs 12(f) and 31(a) and further described in paragraphs A7 and A8 and Appendix 2 of ISA 315 (Revised 2019) significantly improves the ability of auditors to assess inherent risks in the financial statements. However, these relatively high-level inherent risk factors (which, based on their description in paragraph A7 of ISA 315 (Revised 2019) appear to be seven in number) do not appear to be properly aligned with the concept of fraud risk factors in extant ISA 240 or in the draft: there appear to be over 80 fraud risk factors in Appendix 1 of the draft. The disparity in numbers suggests that the comparative granularity of fraud risk factors vs. inherent risk factors means that one is dealing with completely different concepts. We believe that these concepts need to be reconciled conceptually and in terminology in some way. Since ISA 315 (Revised 2019) encompasses the latest IAASB thinking on the issue of inherent risk factors, we believe that the concept of fraud risk factors in ISA 240 needs to be adjusted to match the concept used in ISA 315 (Revised 2019). Appendix 2 of ISA 315 (Revised 2019) does provide greater granularity to the inherent risk factors in No. 5 of that Appendix by referring to “events or conditions that may give rise to the existence of risks of material misstatement”. Using this paradigm from ISA 315 (Revised 2019), we have concluded that the fraud risk factors in extant ISA 240 and the draft actually represent “events or conditions that may give rise to potential fraud risks”. Applying the same paradigm, the three conditions generally present when material misstatements due to fraud occur as set forth in Appendix 1 of the draft (incentives or pressures, opportunities, and attitudes/rationalizations) are in fact the “fraud risk factors” akin to the seven inherent risk factors, recognizing that these fraud risk factors cover matters both related to inherent and control risk. The new definition of fraud risk factors would then read “incentives or pressures to commit fraud, opportunities to commit fraud, or attitudes or rationalizations facilitating fraud.” and the examples in Appendix 2 would relate to events or conditions that may give rise to potential fraud risks. These changes would also imply that the final bullet of No. 2 in Appendix 2 of ISA 315 (Revised 2019) would need to be amended to refer to these three fraud risk factors insofar as they affect inherent risk.

Treating fraud risk factors and “events or conditions that may give risk to potential fraud risks” in this way would also help alleviate the issue arising from Appendix 1 in the draft together with the new requirement in paragraph 27 of the draft, that many “fraud risk factors” in Appendix 1 are actually isolated examples of “events or conditions that may give rise to potential fraud risks” and become actual “fraud risks” only when combined with other such events or conditions that cause one of the three “conditions” (see above – that is those that we suggest be termed “fraud risk factors”) to be present. For example, a high degree of competition or market saturation, accompanied by declining margins, alone may not be considered a fraud risk factor if there is no perceived opportunity for fraud or adverse attitudes that exist due to other events or conditions that may give risk to potential fraud risks.

We believe that aligning the concepts in ISA 315 (Revised 2019) and ISA 240 of inherent risk factors, fraud risk factors, events or conditions that may give rise to the existence of risks of material misstatement, and events or conditions that may give rise to potential fraud risks, will further aid understanding and therefore improve auditor application of ISA 240.

Treatment of all assessed risks of material misstatement due to fraud as significant risks

We do not believe that treating all assessed risks of material misstatement due to fraud as significant risks as required by paragraph 40(b) of the draft is appropriate or proportionate because it undermines the new definition of significant risks in ISA 315 (Revised 2019) and undermines the purpose of a risk assessment, which is to conclude on the likelihood of occurrence and potential magnitude of a material misstatement for the purposes of designing and performing further procedures to respond to the assessed risk. Prior to the revision of ISA 315 in 2019, significant risks were described differently – that is, there were described as those risks of material misstatement requiring “special audit consideration”, with certain considerations that were applied when judging whether risks are significant risks, including whether those risks are due to fraud. Consequently, it made sense to treat risks of material misstatement due to fraud as significant risks under old ISA 315.

Due to the changes resulting from ISA 315 (Revised 2019), including the new definition of significant risk (“an identified risk of material misstatement ... for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur”), treating all risks of material misstatement due to fraud as significant risks no longer makes sense. The mere existence (that is, a reasonable possibility of a potential material misstatement occurring, which is a low threshold) of a risk of material misstatement due to fraud does not imply that such a risk would be assessed at the upper end of the spectrum of inherent risk in terms of likelihood and magnitude of misstatement. The auditor’s risk assessment may result in the conclusion that the risk of material misstatement for a particular assertion is acceptably low, in which case quite rightly, no response would be required by ISA 330 (see second last sentence of paragraph A4 in ISA 330). Requiring the treatment of such risks of material misstatement due to fraud as significant risks would therefore result in unwarranted work effort for risks of material misstatement due to fraud that are acceptably low without an appreciable increase in quality of the audit. Furthermore, paragraph 7(b) of ISA 330 requires an auditor, in designing further audit procedures to be performed, to obtain more persuasive audit evidence the higher the auditor’s assessment of risk. This is recognized in paragraph A117, but this paragraph does not recognize the implication thereof. The implication of this requirement together with treating every risk of material misstatement due to fraud as a significant risk (at the upper end of the spectrum of risk) would be that for any risk of material misstatement due to fraud, auditors would need to obtain the most persuasive evidence practicable, even if the assessed risk of material misstatement due to fraud is much lower (albeit, if not acceptably low) than for other risks of material misstatement, which would lead to a misallocation of auditor work effort in audits to risks of fraud that are less important.

In our view, rather than treating all risks of material misstatement due to fraud as significant risks, we suggest that the IAASB consider those requirements in the ISAs that address significant risks generally and determine which of those requirements ought to apply to risks of material misstatements due to fraud generally (such as perhaps identifying controls and evaluating their design effectiveness and implementation) and then include those requirements in ISA 240. This would result in a more targeted treatment of fraud in the ISAs.

Treatment of all risks of management override of controls as significant risks

The arguments above on the treatment of risks of material misstatements due to fraud given the new definition of significant risks also appear to apply to management override of controls, in particular, since not all risks of material misstatement due to management override of controls will be assessed as being greater than acceptably low and, as posited above, auditors would need to obtain the most persuasive evidence practicable since under the definition it would be assumed that such risks are at the upper end of the spectrum of risk. Management may override controls for legitimate operational reasons, for example, in

unusual situations when there is imminent danger that significant assets may be lost or significant contractual obligations may not be fulfilled. What matters in these cases is that such instances of override are properly documented so that management can justify its departure from entity policies and procedures. Furthermore, the requirements for dealing with management override of controls appear to be largely set forth in paragraphs 49 to 53. It seems to us that the IAASB should rethink its treatment of the risk of management override of controls rather than just carrying forward previous requirements, such as the requirement in paragraph 48 that the requirements apply regardless of the assessed risk, that may not make sense given the new definitions (in particular of significant risk) and requirements in ISA 315 (Revised 2019).

Additional incongruencies with ISA 315 (Revised 2019)

There are a number of additional issues with the structure and content of the draft that cause it to be inconsistent or duplicative with ISA 315 (Revised 2019) and therefore confusing. These include:

- Fraud risk factors are already described in ISA 315 (Revised 2019), in particular in Appendix 2 No. 1 last bullet and in the last row of the table in No. 5, Appendix 4 No. 5, Appendix 5 Nos. 18 and 19. These could be extended as necessary to cover fraud more fulsomely.
- The requirement for information from other sources in ISA 315 (Revised 2019) paragraphs 15 and 16 relates to the overarching requirements for risk assessment procedures in ISA 315 (Revised 2019) paragraph 13. The footnote reference for paragraph 27 of the draft to ISA 315 (Revised 2019) decouples the requirement for information from other sources from the overarching requirement in paragraph 13 of ISA 315. Hence the reference in the footnote to paragraph 29 needs to be augmented to include paragraph 13. As an editorial, we note that since the other sources are not obtained by the auditor, the sentence should read "... the auditor shall consider whether information obtained by the auditor from other sources indicates...",
- In the draft, there does not appear to be a counterpart related to fraud to ISA 315 (Revised 2019) paragraph 19(c). In addition, the requirements in the draft paragraph 28, "the auditor shall perform a retrospective review of management judgements and assumptions...to assist in identifying and assessing the risks of material misstatement due to fraud in the current period", and 31, "the auditor shall determine whether unusual or unexpected relationships that have been identified ... may indicate risks of material misstatement", are decoupled from the risk assessment procedures under "obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control". Requirements for retrospective review of estimates in paragraph 28 and analytical review in paragraph 31 of the draft should primarily inform the auditor's understanding of inherent risk factors required by ISA 315 (Revised 2019) paragraph 19(c). In this respect, see also Appendix 2 to ISA 315 (Revised 2019) relating to subjectivity and management bias, No. 2 third bullet and No. 4, which link back to ISA 315 (Revised 2019) paragraph 19(c). Consequently, these two requirements in the draft belong to obtaining an understanding of the entity and its environment (part of the "what") rather than being overarching requirements (part of the "how") for risk assessment procedures as in the corresponding ISA 315 (Revised 2019) paragraph 13 to 18 and related activities. Therefore, paragraph 33 needs to be augmented to include obtaining an understanding of how fraud risk factors affect the susceptibility of assertions to misstatements due to fraud, and the requirements in paragraphs 28 and 31 need to be incorporated into this augmented part of paragraph 33.
- In line with our comments on the relationship between fraud risk factors and inherent risk factors above, the requirement in paragraph 32 of the draft to evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk

factors are present ought to be incorporated into the requirement in paragraph 40(a) in applying ISA 315 (Revised 2019) paragraph 31(a) so that the auditor takes into account the degree to which inherent risk factors affect the susceptibility of relevant assertions to misstatement due to fraud, rather than being as a separate requirement in paragraph 32.

- Some parts of the sections on understanding the components of the entity's system of internal control in paragraphs 34 to 38 of the draft are largely duplicative of the corresponding paragraphs 21 to 26 in ISA 315 (Revised 2019). Consideration could be given to limiting these paragraphs to "add-ons" through ISA 240.
- There does not appear to be a differentiation of inherent risk compared to control risk in the draft in relation to fraud beyond the application material to the definition in paragraph A22 and the discussion in the second paragraph of Appendix 1. It is therefore unclear what is required in relation to fraud when assessing control risk in accordance with ISA 315 (Revised 2019) paragraph 34, although matters related to fraud could clearly have an impact on the assessment even if they are not related to the override of controls. We suggest that either the draft or ISA 315 (Revised 2019) be augmented to address the considerations in relation to fraud when assessing control risk.

In some of the cases noted above, consequential and conforming amendments to ISA 315 would be more straightforward than attempting to include "add-ons" in ISA 240. This would not preclude ISA 240 from referencing ISA 315 (Revised 2019) when appropriate. Such amendments to ISA 315 would also be more practical: firms implementing risk assessment procedures would less often have to look outside of ISA 315 (Revised 2019) to determine auditor responsibilities.

Issues with the engagement team discussion

We noted the following issues in the requirement in paragraph 29 of the draft:

- The first sentence of the requirement closes with "including how fraud may occur". However, this requirement relates to the susceptibility of the financial statements due to fraud, not to fraud generally. For this reason, the words should be changed to read: "including how material misstatements due to fraud may occur", or "including how such fraud may occur", given the previous reference to material misstatements due to fraud.
- Reference is made in (a)(ii)a. to the discussion including fraud risk factors that include incentives and pressures on management, those charged with governance or employees to commit fraud. First, we note that since the auditor is concerned only with material misappropriation of assets and fraudulent financial reporting, the generic reference to fraud generally and any kind of fraud in terms of size (this would include petty fraud by lower-level entity employees) is too broad for the purposes of the team discussion for an audit of the financial statements, where the objective is to detect material misstatements in the financial statements. The team discussion should therefore be limited to material misappropriation of assets or fraudulent financial reporting: the wording should be adjusted accordingly. Second, we note that the engagement team may need to also discuss the opportunities these parties may have to misappropriate material assets or engage in material fraudulent financial reporting. We therefore suggest that the incentives and pressures on management etc. be augmented by opportunities.
- For both (a)(ii)b. and c., like in the previous bullet point, fraudulent financial reporting and misappropriation of assets, respectively, should be augmented with the adjective "material".
- In relation to (b), we refer to our response to Question 1, in which we explain why alleged and suspected fraud should not be conflated, we suggest that allegations of fraud that are not yet

suspected fraud are not capable of affecting the overall audit strategy or audit plan, even if alleged fraud needs to be followed up to determine if it is suspected fraud. For this reason, we suggest deleting the reference to alleged fraud.

- Paragraph A48 refers to ISA 220 (Revised) paragraph 14 making the engagement partner responsible for creating an environment that emphasizes open and robust communication. However, ISA 220 (Revised) paragraph 14 actually does not require this: it requires the engagement partner to take responsibility for clear and effective actions being taken that establish and communicate the expected behavior of engagement team members, including emphasizing the importance of open and robust communication. We suggest that paragraph A48 be amended to reflect what ISA 200 (Revised) actually requires.

Treatment of management bias

Since management bias can be unintentional or intentional, but only intentional management bias relates to fraud, the treatment of management bias in the standard should be limited to intentional management bias. For this reason, and in line with paragraphs A22 and A35 of the draft, the words “management bias” in paragraph 33(a) and (b) of the draft should be preceded by “intentional” to clarify that unintentional management bias (errors) are not being dealt with in these requirements. This also applies to paragraph 34(d)(iii) and paragraph A47, as well as to paragraphs A76, A91, A104 third bullet, and A108.

References to fraud generally

Given the very broad definition of fraud, which includes deception to obtain unjust advantage or some types of illegal advantage (e.g., unjust enrichment) that may not be directly related to misappropriation of assets or fraudulent financial reporting, we are not convinced that understanding the components of internal control for the purposes of a financial statement audit should cover such matters. Furthermore, the references to fraud generally serve to further cause inappropriate expectations or confusion among some readers about what the purpose of an audit of financial statements is. For these reasons, the general references to fraud in paragraphs 34(b), (c), and (d), 36(a) and (b), 38 and 39 should refer to misappropriation of assets and fraudulent financial reporting or material misstatements due to fraud, as appropriate, rather than to fraud generally.

In this vein, we note that paragraph 35(a)(i) correctly refers to misappropriation of assets and fraudulent financial reporting, but then refers to “identified” and “assessed” fraud risks in (a)(ii) and (iii). To clarify that the fraud risks in (a)(i) are meant, we suggest that the word “the” prior to “identified” and “assessed” be changed to “these”.

Control deficiencies

In line with ISA 265 and ISA 315 (Revised 2019), since auditors do not seek control deficiencies to express an opinion on internal control, ISA 265 refers to the auditor determining whether control deficiencies have been identified rather than determining whether there are control deficiencies identified. For this reason, the words in paragraph 55(d) should be changed to “determine whether control deficiencies have been identified”.

Prior-period estimates

Reference to “the prior period” in paragraph A47 ignores other potentially relevant assessments (e.g. in earlier periods) and is inconsistent with paragraph 28 and ISA 540 paragraph A56.

Information from other sources

The second bullet in paragraph A45 addresses both management's commitment to integrity and ethical values and its commitment to remedy known significant deficiencies in internal control. These two matters are unrelated and therefore warrant separate bullets because by addressing them in one bullet, it suggests that there is a connection between ethical values and the commitment to remedy significant deficiencies. In addition, significant deficiencies in internal control are defined in ISA 265 as those that are of sufficient importance to merit the attention of those charged with governance. Nevertheless, in some cases, the cost of remedying significant deficiencies in internal control may exceed the benefit (e.g., the cost of establishing and maintaining effective controls over certain types of third-party fraud (e.g., immaterial theft by customers) may exceed the benefit of reducing losses due to fraud and such losses may therefore be regarded as "cost of doing business" in some industry sectors).

Improper conduct by management

The third bullet point of paragraph A57 claims that the existence and enforcement of a written code of conduct would generally constrain improper conduct by management. Enforcement of such a code would require more than just oversight by those charged with governance as set forth in the first bullet – it would require enforcement by those charged with governance. Consequently, the third bullet should be augmented at the end with "by those charged with governance".

Inquiries of those charged with governance

Paragraph A78 refers to the auditor considering whether to continue the engagement. In line with other ISAs on this matter and because withdrawal is not possible in some jurisdictions, reference should be made to considering whether to withdraw from the engagement, where withdrawal is not prohibited by law or regulation.

Assessing fraud risks

Paragraph A84 addresses how management may address the likelihood of a fraud risk. However, management may also seek to address the potential impact of a fraud risk, including its velocity (that is, how quickly it might occur). We suggest that the paragraph be augmented to deal with how management may address the impact of a fraud risk.

The example box under paragraph A85 includes a last bullet under preventive controls that does not represent a control – it represents the result of a preventive control. We suggest that the bullet point be redrafted to represent a preventive control.

Identifying and assessing the risks of material misstatement

The first bullet in the example under paragraph A104 refers to estimation of revenue, and in particular inappropriate estimates of the amounts of consideration. However, inappropriate estimates of revenue also occur when estimates of the timing of consideration are subject to uncertainty. We therefore suggest inserting "or timing" between "amount" and consideration.

Fraud in revenue recognition

The IAASB rejected the use of the term "rebuttable presumption" in its redrafting ISA 240 as part of the clarity project because "rebuttable presumption" is actually an American legal term that was adopted by the PCAOB and the IAASB chose to avoid using American legal terms in international standards. Nevertheless, extant ISA 240 includes one case of referring to "rebutting a presumption" in paragraph A31. However, this is not standard English because the word "rebut" can also mean that one has made a claim of refutation without having actually refuted the matter. A refutation of the presumption is what is actually desired in this

case. We therefore suggest that to avoid misunderstanding, paragraphs A110 and A111 should be changed in line with paragraph A112 (using “applicable”) to read as follows:

A110. ...The significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily justifies the applicability of the presumption that there are risks of material misstatement due to fraud in revenue recognition.

A111. There may be circumstances where it is justifiable that presumption that there are risks of material misstatement due to fraud in revenue recognition is not applicable. The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where fraud risk factors are not present or not significant

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):

With the exception of the matters that we address in our response to this Question, we generally agree with the work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit. In particular, we refer to our response to Question 1 on alleged fraud vs. suspected fraud, where we make the case that alleged fraud and suspected fraud need to be distinguished from one another in the standard and therefore do not agree with the work effort proposed in the draft for alleged fraud due to alleged fraud being conflated with suspected fraud.

For example, paragraph 29(b), presumes that any allegation of fraud is suspected fraud. However, if the auditor is more familiar with the circumstances than the alleging party or the allegations are clearly spurious, in line with our response to Question 1, it does not automatically follow that every alleged fraud is suspected fraud and that therefore, unless alleged frauds are determined to be suspected frauds, would not have an impact on the overall audit strategy and audit plan. Likewise, with the exception of our comments below, all of the requirements in paragraphs 55 and 56 and their corresponding application material appear to be appropriate for suspected fraud, but not necessarily for alleged fraud. For example, unlike suspected fraud, alleged fraud would not lead to the auditor:

- determining the effect on the audit, unless the understanding that the auditor obtains of the matter based upon the auditor’s knowledge and inquiries about the matter with a level of management that is at least one level above those that are allegedly involved leads to the auditor concluding that the alleged fraud is suspected fraud (paragraph 55 introductory phrase and (a))
- evaluating whether the entity’s process to investigate the matter is appropriate, unless the auditor concludes that the alleged fraud is suspected fraud
- evaluating remediation measures that the entity has implemented – in fact, the entity would not have any such measures in this case (55(c))

- determining whether control deficiencies exist.

Treating alleged fraud the same as suspected fraud may also lead to dysfunctional work effort for auditors when so-called “allegation bombing” occurs – that is, cases in which companies may be inundated with allegations from campaign groups trying to obtain an – objectively unjustified – focus on their concerns. With ever more sophisticated automated tools generated by artificial intelligence, this danger is increasing as can be seen by the prevalence of manipulation of online product and service reviews. The IAASB needs to anticipate such issues, that may be exacerbated by technology, to “future-proof” the standard.

Since in paragraph 55(d) the auditor is only concerned about significant deficiencies in controls relating to the prevention or detection of material misstatements due to fraud, the words “material misstatements due to” should be inserted prior to the word “fraud”.

The wording in paragraph 59 needs to be aligned with that used for scope limitations in the ISAs, which means the wording of the sentence should start as follows: “If the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether....”.

In relation to paragraph A144, which applies to both identified fraud or suspected fraud, the ending of the sentence only refers to fraud, but not suspected fraud. Consequently, “or suspected fraud” should be added at the end of the sentence. With respect to second bullet point, it is not clear whether the auditor’s or the entity’s external counsel is meant (unlike in paragraph A146, where this is specified). We suggest inserting “the auditor’s” prior to “external”. If the entity’s external counsel is meant, then clarification would need to be given that management of the entity would need to permit its external counsel to consult with the auditor.

In relation to the first sub-bullet of the third bullet of paragraph A146, reference is made to making further inquiries of the entity’s external legal counsel. Clarification should be given that management of the entity would need to permit its external counsel to consult with the auditor.

In relation to paragraph A146, an additional consideration for the auditor when evaluating the appropriateness of the entity’s process is whether the cost of the entity’s process for responding to immaterial fraud and addressing control deficiencies regarding the prevention or detect of fraud, or whether the outcome of the process is likely to prevent the reoccurrence of fraud, is worth the benefits. For example, in some circumstances, immaterial fraud by third parties (e.g., customers) is regarded as a cost of doing business because the costs seeking to prevent or detect the fraud exceed the cost of the fraud. We also note that in the second bullet the reference to “or suspected fraud” should be deleted because the outcome of a process is supposed to prevent fraud, not suspected fraud.

In relation to the first bullet of paragraph A150, we note that the consideration in that bullet point should extend to not only the susceptibility of a loss due to fraud, but also the potential size of the loss due to fraud. The wording should therefore be changed to read: “The susceptibility and potential size of the loss due to fraud...”.

While paragraph A151 addresses indicators of significant deficiencies in internal control, it does not address the countervailing aspect when these indicators may not apply. In particular, the paragraph does not address situations where the costs of controls to prevent or detect non-material fraud considerably exceed the cost of the fraud, in which case these indicators of significant deficiencies would not apply.

Paragraph A153 addresses the fact that sometimes extending an audit reporting deadline may not be possible under applicable law or regulation. We believe that this paragraph confuses the reporting deadlines of the entity with auditor responsibilities. The fact that an entity may have reporting deadlines for issuing audited financial statements set forth in law or regulation (or otherwise set by the entity) does not mean that auditors are required to meet those deadlines if circumstances do not permit the auditor to do so. In

particular, auditors cannot issue a modified opinion due to a scope limitation unless the auditor is unable to obtain sufficient appropriate evidence – regardless of whether the auditor needs more time to determine that the auditor is or is not able to obtain that evidence: there are no “self-imposed” scope limitations for auditors. For these reasons, we believe that this paragraph needs to clearly distinguish between entity deadlines and auditor responsibilities and clarify that there are no auditor-imposed scope limitations in this respect.

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 requirements for key audit matters (KAMs) in relation to fraud in the auditor’s report from paragraph 61 to 64 of the draft introduce a systematic bias into the audit report, which in our view is inappropriate. There are many situations where matters related to fraud are not among those matters that were of most significance in the audit. Effectively requiring the inclusion of such matters as KAM by requiring at least some fraud-related matters to generally be considered of most significance in the audit not only contradicts the definition of a KAM, but also undermines the intent of KAMs to emphasize the *most important* matters, regardless of their nature. In many cases, these requirements in the draft will lead to a potential overemphasis on fraud in KAM, which will lead to “boilerplate” reporting and thereby dilute the impact of the auditor’s report. For these reasons, we take issue with the assertion in paragraph A170 that states that one or more matters related to fraud would ordinarily be of most significance in the audit and therefore a KAM and A176 of the draft, and with the assertion in paragraph A176 that it would be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least on KAM related to fraud.

As a precedent, these requirements also open the door to other specific matters to be included in the auditor’s report (and in particular, in the KAM section) as a “checklist”, which will distract users from the most important messages (the audit opinion), and perhaps to “piecemeal” audit opinions.

In practice, practitioners may be tempted to opt for standardized reporting on fraud rather than making the statement that there are no key audit matters related to fraud to communicate from paragraph 64. In fact, this statement is redundant, because if fraud related matters are not included as KAMs it is self-evident that there are no key audit matters related to fraud to communicate.

There may also be legal issues with including certain information about fraud or suspected fraud in certain jurisdictions, including Germany, because of strict statutory confidentiality obligations for auditors and legal requirements not to disclose information publicly about confidential criminal investigations or pending criminal investigations. In other words, we believe that in many cases, paragraph 14 of ISA 701 would apply, which may defeat the purpose of the requirements in paragraphs 61 to 63.

The requirements from paragraphs 61 to 64 for suspected fraud should also be clarified, following on from the issues addressed in our responses to Questions 1 and 4 relating to the distinction between alleged and suspected fraud. We are not convinced that an alleged fraud that has not be determined to be suspected fraud can ever be a KAM under the definition of KAM or the requirements from paragraphs 61 to 64.

Furthermore, seeking disclosures on suspected fraud will likely lead to accusations (if not suits) of libelous reporting from those that had been investigated because a disclosure in a public form of suspected fraud that turned out not to be actual fraud could be viewed as libelous. Disclosing a suspected fraud that the auditor concludes is not fraud – particularly in relation to management – will cause considerable unnecessary tumult in capital markets because readers will often unjustifiably presume that “where there is smoke, there must be a fire”. This will be exacerbated through media misreporting or misinterpretation of the matters disclosed. For these reasons, we regard the second bullet point in paragraph A165 and the example in the box after paragraph A168 to be unrealistic if no actual material fraudulent financial reporting is detected. We therefore conclude that KAM would therefore likely need to be restricted to cases of actual material misappropriation of assets or fraudulent financial reporting that has been corrected.

However, if the auditor identifies the existence of actual material misappropriation of assets or fraudulent financial reporting, this is very likely to be a KAM under ISA 701 without the need to provide additional requirements in ISA 240. Application material in ISA 240 to this effect would adequately buttress the proper application of ISA 701 in this regard.

In relation to paragraphs 61 to 64, we believe that the reference to fraud generally is too broad. As we set forth in our response to Question 1, the auditor’s responsibility relates to detecting material misstatements in the financial statements due to misappropriation of assets or fraudulent financial reporting. For this reason, the references to fraud in the introductory sentence of paragraphs 61, 61(b), 61(c), 63, and 64 should be changed to refer to material misstatements in the financial statements due to misappropriation of assets or fraudulent financial reporting.

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):

In alignment with the approach taken in the PIE Track 2 project at the IAASB, we agree that any transparency requirements for the auditor’s report be expanded from listed entities to PIEs. However, we refer to our comment template on PIE Track 2 with respect to our concerns about the definitions and requirements relating to PIEs as proposed in the corresponding exposure draft.

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):

The draft includes a valid discussion of the difference in risk assessment between larger and smaller entities in paragraph A58 as regards the nature of fraud risks, which would lead to a different emphasis of effort.

The difficulties in differentiation between alleged and suspected fraud discussed in our response to Question 4 relating to large numbers of allegations will tend to apply to larger entities. However, larger entities will also tend to have more sophisticated systems in place for managing allegations as well. This matter could be addressed in the application material relating to allegations of fraud.

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?

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*

(See EM, Section 1-J, paragraphs 81–84)

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

Detailed comments (if any):

Other than the matters addressed in our responses to the Questions above and below referring to inconsistencies with other ISAs or where the linkages to other ISAs could be improved, we believe that the draft has appropriate linkages to other ISAs. For reference, we note the following responses we provided, to the questions, in which we had concerns about the linkages to the other ISAs:

- Question 1: The linkage to ISA 250 (Revised) could be improved by clarifying that ISA 250 (Revised) is not applied in addition to ISA 240 unless additional requirements regarding non-compliance with laws and regulations apply.
- Question 2:
 - The linkage to ISA 220 (Revised) and ISA 315 (Revised 2019) regarding the use of information obtained during the acceptance and continuance process when considering past experience about the honesty and integrity of management
 - The linkage to ISA 200, in particular what professional skepticism involves
 - The linkage to ISA 500, clarifying that professional skepticism is exercised when evaluating the reliability of information to be used as audit evidence, rather than as the reason for evaluating the reliability of such information, which is already required by ISA 500
 - The linkages to ISAs 315 (Revised 2019) and 330, in which it is not the reliability of controls that is tested, but their design effectiveness and implementation in certain circumstances (ISA 315) or their operating effectiveness when they are being relied upon (ISA 330)
- Question 3: Many linkages to ISA 315 (Revised 2019) can be improved, including those relating to:
 - Inherent risk factors vs. fraud risk factors
 - Treatment of all assessed risks of material misstatement due to fraud as significant risks
 - Treatment of all risks of management override of controls as significant risks
 - Issues with the engagement team discussion (also relates to ISA 220 (Revised))
 - Treatment of management bias
 - References to fraud
 - Control deficiencies (also relates to ISA 265)
 - Treatment of prior-period estimates (ISA 540)
 - Information from other sources (ISA 265)
 - Additional incongruencies with ISA 315
- Question 5: Alignment with ISA 701
- Question 10: Conforming amendments and alignment with CUSP

At various places throughout our responses, we note that reference is made to “management bias”, rather than “intentional management bias”. ISA 540 (Revised) covers both with respect to accounting estimates, but ISA 240 would only cover intentional management bias, which represents fraud – not unintentional bias, which represents error and would be covered by ISAs 315 and 330, etc. In those places, we note were the word “unintentional” needs to be deleted or “intentional” needs to be inserted to clarify this.

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):

Responses to Assessed Risks

Unpredictability in the Selection of Audit Procedures

The first bullet in the example box following paragraph A114 addresses performing further audit procedures on selected account balances or disclosures that were not determined to be material or susceptible to material misstatement. This choice of words does not align conceptually with that in ISA 315 (Revised 2019) or ISA 330, in which auditors are required to assess the risks of material misstatement for classes of transactions, account balances or disclosures that have been identified as significant (i.e., contain a relevant assertion – that is an inherent risk exists, which means it is reasonably possible for a material misstatement to occur) and then respond to the assessed risks, unless they are acceptably low (see paragraph A4 of ISA 330). Since, pursuant to the draft (but with which we disagree), all identified risks (for relevant assertions) of material misstatement at the assertion level in classes of transactions, account balances or disclosures are treated as significant risks and therefore need a response, it means that only those classes of transactions, account balances or disclosures for which no risk of material misstatement has been identified (i.e., there is no reasonable possibility of a material misstatement) would not require a response under the draft. Consequently, in line with the draft, the words would need to be changed to “Performing further audit procedures on selected classes of transactions, account balances or disclosures for which no risk of material misstatement has been identified”.

Overall responses

The second bullet in the example box of paragraph A116 refers to corroborating management’s explanations or representations concerning material matters. However, there may be significant judgements by management that are not per se material (they may relate to material matters). We therefore suggest that the word “material” be replaced with “significant” in line with its usage in the ISAs.

Journal-entry testing

There is a lack of clarity on what evidence is needed to determine the completeness of the population of journal entries in paragraph 50(b) and A128 of the draft. Completeness of the underlying data before information processing takes place is not mentioned in the application material. There is a danger that the reference to general IT controls in the example in paragraph A128 will be interpreted as being sufficient for determining completeness. Additional guidance on what may be needed beyond consideration of general IT controls may be helpful. Furthermore, paragraph A135 implicitly suggests that completeness of journal

entries can be determined using automated tools and techniques alone, which is incorrect. Often automated tools test “completeness” by reconciling opening balances and journals to closing balances, which is only part of the evidence needed to determine completeness. The potential for misunderstanding here could be avoided by an additional reference to paragraph A128 in paragraph A135, and including additional text to qualify the example in A135, “... (e.g., determining some aspects of the completeness of the population ...”

In the second bullet in the example box following paragraph A130, reference is made to management bias. Since fraud relates only to intentional management bias, the word “intentional” should be inserted prior to the word “management”.

In Appendix 4, the text inappropriately slips into specifying requirements in the second sub-bullet of the second bullet. The second sub-sub-bullets stipulates controls that are covered by paragraph 38 and therefore required to be considered by the auditor. Although the situations described are often relevant there is quite a wide variation in practice about what, for example, standard and non-standard journals are. We would therefore suggest inserting the word “may” in between the words “these controls” and “include” in the last sentence of the second sub-bullet of the second bullet.”

Auditor unable to continue the engagement

In relation to the first bullet of paragraph A158, we note that there ought to be some guidance provided on when auditors may consider appropriate action not to be necessary in the circumstances. In particular, an entity may be justified in not taking action when the costs of controls to prevent or detect non-material fraud considerably exceed the cost of the fraud. The second bullet of paragraph A158 refers to a “significant risk of material and pervasive fraud”. Since the draft requires risks of material misstatement due to fraud to be treated as significant risks, referring to significant risks is inappropriate. We therefore suggest that the word significant be replaced with “high”. In relation to the fourth bullet of paragraph A158, it is difficult to understand how fraud at the entity is a threat to auditor compliance with the fundamental principles of relevant ethical requirements; if there is such a connection, that should be spelled out.

Appendix 1 on fraud risk factors

Whether the circumstance, “tolerance of petty theft”, included in the fifth bullet under Attitudes/Rationalizations in the section on misappropriation of assets is an indicator of potential fraud risk factors depends upon whether such petty theft can be prevented, detected and, only if the individual perpetrators can be identified, penalized in a reasonable way. If the establishment of effective controls to prevent, detect and penalize such theft considerably exceeds the cost of such theft, tolerance of such petty theft may be a reasonable business decision and therefore not be a fraud risk factor. This does mean that management does not have a responsibility to address petty theft when the perpetrating individuals can be identified. For this reason, we suggest adding “unless cost of effective controls to prevent or detect such theft considerably exceeds the cost of such theft”.

Conforming amendments

ISA 450 and ISA 505

In relation to paragraph 5A, since the indication of fraud relates to only a misstatement, and misstatements due to fraud can only arise from misappropriation of assets or fraudulent financial reporting, we suggest that the term “fraud” be replaced by “misappropriation of assets or fraudulent financial reporting”. The same applies to the reference fraud in paragraph A6A.

The same considerations apply to paragraph A21 of ISA 505, in which “fraud” should be replaced by “misappropriation of assets or fraudulent financial reporting”.

ISA 700 (Revised)

We have become aware that many users of auditors' reports do not understand the responsibilities of auditors in relation to fraud. In particular, when reference is made to fraud in the auditor's report, users do not understand that this reference relates only to misappropriation of assets and fraudulent financial reporting. For this reason, when the IDW translated into German and then transposed ISA 700 (Revised) into our IDW Auditing Standard, we added a short, required explanation in parentheses in the auditor's report directly subsequent to the first mention of fraud in that report. We have found that this addition greatly improves user understanding of what is meant by fraud in auditors' reports. For this reason, we recommend that the IAASB insert parentheses encompassing the words "misappropriation of assets or fraudulent financial reporting" after the word "fraud" in the requirement in paragraph 38(a). This would then need to be adjusted accordingly in all of the example reports in the ISAs, when relevant.

The amendment to paragraph 40(a)(i) refers to the communication of identified or suspected fraud to those charged with governance. This wording is not in line with the requirement in paragraphs 67 and 68 of the draft, in which the communication is (also for paragraph 67, since only certain fraud matters are communicated) effectively limited to those matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance, unless communication is prohibited by law or regulation. For these reasons, the wording in paragraph 40(a)(i) and (ii) should be changed to read:

"Identified or suspected fraud and other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance, unless the communication is prohibited by law or regulation".

In paragraph 40(c), the matters related to fraud are a subset of those of most significance to the audit of the financial statements – that is, they are not separate therefrom. For this reason, the word "those" should be inserted in the amendments prior to both uses of the word "matters".

ISA 701

In line with our comments on paragraph 40(c) of ISA 700, the word "those" should be inserted into the title required in paragraph 11 as follows: "Key Audit Matters Including Those Matters Related to Fraud". This also applies to paragraph 16 and the heading after paragraph A58. The reports would need to be adjusted accordingly. With respect to paragraph A18A, we refer to our response to Question 5 and the use of the term "ordinarily".

Alignment with CUSP and current drafting practice

Paragraph A91 uses the verb "judge", which is not one of the verbs covered by the CUSP conventions. We suggest that the verb be replaced with "consider".

With the exception of one short sentence in extant ISA 240 (which albeit, does not necessarily represent good practice), none of the ISAs include footnotes with text taken from the IESBA Code. Rather, the content of the Code is provided in the application material as an example and then a footnote reference to the paragraphs in the Code is provided. This draft is the first ISA in which the IAASB proposes including long footnotes with text from the Code, which we believe is neither in line with CUSP nor good practice in standard setting and sets a bad precedent. The first instance is paragraph A15. Rather than including the text in the footnote, a sentence could have been added to the end of paragraph A15 that states "For example, the IESBA Code provides requirements and application material relating to communication with respect to groups". This sentence could then include a footnote reference to the source paragraph in the IESBA Code. The other footnotes suffering from text substantive text (from the IESBA Code unless otherwise indicated) include the footnotes numbered 46, 56 (in relation to ISA 260

(Revised)), 77, 85, 91, 93 (not a reference that could be placed directly into the text), and footnote 65 for ISA 701 (conforming amendments). Footnote 59 in the conforming amendments of ISA 701 is particularly unusual for a requirement: Perhaps this should be an addition as a separate paragraph to the definitions section, in which usage of terms that are not definitions is sometimes described.

Editorial comments and other drafting issues

In the Appendix to this Response Template, for the benefit of IAASB staff, we have provided a list of matters that we have identified during our analysis of the draft that we would classify as editorial comments and other drafting issues.

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 will likely have difficulty translating the term ““top-side” adjustments” used in paragraph A129. The question arises whether a description rather than a colloquial term could be used.

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):

Given the need for jurisdictions to translate, adopt, and potentially adapt, the standard, the need to provide implementation guidance and training to practitioners and regulators, and the fact that early application of standards that have been issued is permitted, we believe that a (mandatory) effective date should be at least 24 months from the date the standard is issued.

Appendix to the Response Template for the Exposure Draft of Proposed ISA 240 (Revised):

Editorial Comments and Other Drafting Issues by Paragraph

3. The third sentence of this paragraph begins with “This”. It is not clear what “this” relates to. We surmise that “this” relates to the importance of management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention. If that is the case, “This” should be changed to read “Such a strong emphasis on fraud prevention involves....”.
65. Item (d) in this paragraph contains an unusual list of parties, that have communicated suspected fraud, that actually represents examples of parties, which ought to be in application material. We suggest that the list of be moved to the application material as examples of parties and after the word communicated to simply state “by others”.
67. The last two sentences can be combined into one sentence as a requirement; the last sentence does not actually reflect a requirement as such. This can be done as follows:
“If the auditor identifies suspected fraud involving management, unless the communication is prohibited by law or regulation, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit.”
- A16. The entity was not perpetrated by a third party (the “that” after the word “entity” incorrectly refers to the “entity”), but the fraud, so the phrase “affecting the entity” should be set off in commas.
- A31 A comma is missing after “When performing audit procedures”.
- A43. The last sentence using “It is important” appears to represent a hidden requirement. We suggest that to alleviate this, the word “ordinarily” be inserted prior to “important”.
- A44. At the beginning of the last sentence, the word “Therefore” should be replaced with “Consequently”, since the sentence deals with a consequence of having a dynamic and iterative process, rather than a logical conclusion.
- A54. The sentence structure is awkward and can be improved by moving the phrase “when performing analytical procedures in accordance with ISA 315 (Revised 2019)” to the beginning of the sentence and setting it off with a comma.
- A67. The last sentence in the last sub-bullet of the first bullet is not a sentence – there appears to be a verb missing, or the phrase should be set off with a comma and become a part of the previous sentence. It is not clear what the last bullet point in this paragraph is trying to convey that would lead to increased susceptibility to misstatement due to management bias or other fraud risk factors: further clarification is needed.
- A69. Since specific training for each of prevention or detection, depending upon the role, may be needed, we suggest that the word “and” between “prevention” and “detection of fraud” be changed to “or”, which is inclusive under CUSP.
- A74. It is not clear what is meant by “no action” on the part of the auditor – we surmise that what is meant is that an auditor need not seek to understand the oversight exercised by those charged with governance or to seek to communicate with them. If that is the case, that is what should be said.

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

- A75. We are not convinced that those charged with governance, who are entrusted with an oversight function, would necessarily have a detailed knowledge of how the entity assesses the risk of fraud and about the entity's controls to prevent or detect fraud, etc. – with the possible exception of these matters relating to fraud by senior management. We therefore suggest that the words be changed to read "... inquire of those charged with governance of their understanding about how...".
- A76. Since ISA 240 deals only with fraud and not error, including error resulting from unintentional management bias, we suggest that the reference to "management bias or management fraud" in the first sentence be changed to read "intentional management bias or other management fraud".
- A76. Since ISA 240 deals only with fraud and not error, including error resulting from unintentional management bias, we suggest that the reference in the third sentence to "or unintentional" prior to "management bias" be deleted.
- A79. In the last bullet point, it is unclear to us what a "total" fraud risk management program" is. We suggest that the word "total" be deleted.
- A85. In the first bullet under Detective controls in the example box this paragraph, to improve the flow of the sentence, we suggest moving "for further investigation" to after the word "activities".
- A96. The wording at the end of this paragraph is awkward: we suggest changing it to read "... including matters about which the auditor obtains knowledge through the required understanding."
- A97. The reference to "forensic and" in the last ought to be deleted because the paragraph content prior to the last sentence deals solely with IT matters and therefore bears no relation to this prior content. Furthermore, the inclusion of "forensic" suggests that forensic experts are generally required when dealing with changes in the IT environment or complex IT applications, when often IT experts would suffice.
- A100. The sentence suffers from an awkward construction and is difficult to understand. We suggest it be worded as follows: "Information obtained from understanding controls over journals entries designed to prevent or detect fraud, or from the absence of such controls, may also be ...".
- A101. In the first bullet of the example box after this paragraph, mention is made of "segregate access" – the question arises, segregate access from what? Furthermore, the word "make" should be changed to "making", since it is presumably about the act of making changes.
- A102. The second sentence states that such a determination "may be an indicator" – an indicator of what: fraud, suspected fraud, fraud risks?
- A104. In line with ISA 315 (Revised 2019), the word "Determining" at the beginning of the sentence should be changed to "Identifying". In the last bullet in the example box after this paragraph, a hyphen is missing in between "management" and "defined".
- A109. In the last bullet in the example box after this paragraph, the article "the" needs to be added prior to the word "presentation", since this is a separate matter from the disclosures (i.e., the sentence no longer reads properly if one were to delete "required disclosures or"). The slash in between "investor" and "market expectations" should be replaced with an "or".
- A114. The semi-colon in the first sentence should be replaced with a comma. The second sentence beginning with "It is therefore important that" appears to represent a hidden requirement: we therefore suggest inserting the word "ordinarily" prior to "therefore" to remedy this. The example box thereafter starts with the word "examples" and a colon, but it is not clear as examples of what? The same applies to the example box after paragraph A116.

- A117. In the second bullet in the example box after this paragraph, the words “of material misstatement” should be added after the word “risk”. It is unclear what is meant by “preclude” revenue recognition. We surmise that what is meant is that the agreements include terms that, under the financial reporting framework, would not lead to revenue recognition. If that is the case, that is what should be said.
- A155. In the first sentence, is unclear – relevant to what? In the second bullet of the example box after this paragraph, a comma needs to be inserted in between “regulation and “which”. The same applies to the next bullet point after the word “requirements”.
- A175. It is unclear from the construction of this paragraph the three circumstances are mutually inclusive or exclusive. It appears to us that (a) and (b) are mutually exclusive, whereas (c) can be mutually inclusive with both (a) and (b). If this is the case, then the word “either” should be placed at the same level prior to (a) and (b) and denoted (a), (a) and (b) should be denoted (i) and (ii), respectively, (i) and (ii) and be should then be connected with an “or”, and (c) should be denoted (b) and be connected with (a) with an “or” (which would be inclusive in this case).

Appendix 1

Under “Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting”, “Opportunities” and “Deficiencies in internal control as a result of the following”, the matter in the fourth bullet point could certainly cause a deficiency in internal control, but the other bullets describe the deficiency, not just the matters that given rise to the deficiency – i.e., what is not effective?

Under “Risk Factors Relating to Misstatements Arising from Misappropriation of Assets”, “Opportunities”, “Inadequate controls over assets ...”, the last bullet point is unclear as to what is not effective. Certainly lack of oversight is not what is not effective.

Appendix 2

Under “Consideration at the Assertion Level”, the fourth bullet refers to “detailed review” as an audit procedure. In our view, the appropriate term for the audit procedures in line with ISA 500 would be “inspection”.

Under “Consideration at the Assertion Level”, the sixth last bullet point refers to the work of an expert, it is unclear whether a management’s expert or an auditor’s expert is meant, particularly since reference is made to using “another expert”, which appears to relate to using an auditor’s expert. We suggest that reference to the latter “another expert” be termed “another auditor’s expert” and then the first reference to “expert” would then also need to be changed to “auditor’s expert”.

In the bullet point immediately thereafter, in line with CUSP, the verb “assess” for what auditors do ought to be changed to “evaluate”.

Under “Specific Responses – Misstatement Resulting form Fraudulent Financial Reporting”, fourth last bullet, reference is made to “provide assurance” – term that is avoided in IAASB literature. We suggest that the term be change to “provide evidence”.

Appendix 3

Under “Conflicting or missing evidence, including”, the reference to “which” in the eleventh bullet under American English usage should be changed to “that” and the comma deleted.

Under “Problematic or unusual relationships...” in the seventh bullet, we suggest that the example within the parentheses be augmented by reference to “or entity legal counsel”, which is an example that occurs more frequently.

Appendix 4

In the third bullet, from a grammatical point of view, the infinitive “to identify” should be changed to “in identifying”.