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

Guide for Respondents

Comments are requested by **June 5, 2024**.

This template is for providing comments on the Exposure Draft (ED) of *Proposed International Standard on Auditing 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs* (ED-240), in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
  - Respond directly to the questions.
  - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
  - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
  - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment"** button on the ED web page to upload the completed template.

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Forvis Mazars	
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Jean-Luc Barlet Paul Winrow	
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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.	Global	
	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.	Accounting Firm	
	If "Other," please specify.	
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	Forvis Mazars Group SC is an internationally integrated partnership specialising in audit, accountancy, advisory, tax and legal services. Operating in over 100 countries and territories around the world, we are a member of a two-firm top ten global accounting network (Forvis Mazars Global) which can draw on the expertise of more than 40,000 professionals.	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional**. The IAASB's preference is that you incorporate all your views in your comments to the questions (also, question no. 10 in Part B allows for raising any other matters in relation to the ED).

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

We welcome the opportunity to comment on the IAASB's exposure draft proposing revisions to ISA 240, T*he auditor's responsibilities relating to fraud in an audit of financial statements.* We have set out our detailed comments in the responses to individual questions and highlight in our response to Question 1 some overarching thoughts on the proposed revisions to ISA 240.

PART B: Responses to Questions for Respondents in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Responsibilities of the Auditor

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?

   (*See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)*

   (See ED, paragraphs 1–11 and 14)

Overall response: **Agree, with comments below**

Detailed comments (if any):

There needs to be clarity over what auditors can and can't realistically be expected to achieve in relation to fraud during an audit carried out under international standards on auditing. We welcome the IAASB's efforts to clarify the responsibilities of the auditor in relation to fraud and believe most of the changes proposed are logical and uncontroversial, and generally codify good practices followed by most auditors and clarify existing requirements in a number of areas. As such it is unlikely that these changes will lead to a significant shift in the dial of behaviours and performance of auditors, although stakeholders may expect that the revisions are intended to lead to more change in how fraud is addressed than is likely. There is, therefore, a risk that the standard may raise expectations that the changes will lead to a more fundamental change in auditor behaviour than will be borne out in reality, widening the already considerable expectation gap that auditors are required to do more on fraud than they really do.

We note that the project objectives set out in the project proposal focus on "strengthening" the standard and to "enhance" the auditor's response to identified risk, with other references to verbs such as "clarify", "promote consistent behaviour", "reinforce the importance". As such, the proposed revision of the standard may not be as fundamental as some stakeholders may expect.

Stakeholders will likely expect that the revisions to ISA 240 would address previous failings to identify frauds in high profile cases, such as Patisserie Valerie and Wirecard. If the IAASB believes that these changes will make a fundamental difference, it should be able to demonstrate whether the revised auditing standards would have led auditors to identify and address frauds in such cases. If this is not the case, the IAASB should carefully consider how it messages the likely impact of these changes to avoid expectations that all frauds will now be picked up during an audit, which we believe would be unreasonable. Perhaps greater emphasis on the inherent limitations may be warranted to manage such expectations.

Furthermore, with regard to managing stakeholder expectations, we are concerned that the proposals around reporting fraud risks as a separate category unnecessarily elevates what auditors do on fraud over and above other risks, which in many cases are more significant than fraud risks. We are particularly concerned that the requirement to include an explicit statement that no key audit matters related to fraud were identified. in the auditor's report, may be taken by stakeholders as a statement that the financial statements are free of fraud, placing undue reliance on the audit report which cannot give absolute assurance. The tone of the exposure draft suggests that auditors should likely identify at least one fraud-related KAM. As such, the prescriptiveness of the reporting requirement is likely to lead to boilerplate reporting as both companies and auditors look to mitigate the risks of transparency around fraud and, as such, would add little value to audit reports.

We believe that we need to keep awareness of the inherent limitations of an audit when it comes to the identification of fraud, and welcome the IAASB’s inclusion of the inherent limitations section (ED-240.9-11) in the proposed standard.

We are concerned, however, that the proposed changes to the standard put fraud "centre stage" in the audit, above other risks which may be more pertinent to individual engagements, and thereby risk increasing the expectation gap around the auditor’s role and responsibilities in relation to fraud. For example, third-party fraud is likely difficult or impossible to detect during an audit and the references to "non-material" fraud muddy the waters regarding the auditor’s responsibilities (to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud). Further clarity over such matters through description of the inherent limitations may be helpful.

One of the key challenges is drawing the line where auditor action is required in relation to potential fraud. The standard should make clear that it is key for auditors to respond to issues when they become aware of them rather than necessarily seek out every potential fraud. In a well-known case where car manufacturers fraudulently recorded diesel emissions data, it would not be reasonable to expect the auditor to have necessarily identified such matters, but it would be reasonable to expect the auditor to respond when they become aware of the issue to assess the impact on the financial statements audit.

The primary responsibility for the prevention and detection of fraud rests with management and, as such, management’s responsibilities should be presented first in the responsibilities section of the standard to provide greater clarity to users and other stakeholders as to the respective responsibilities of management and the auditor.

It is not clear what the IAASB is expecting auditors to do regarding qualitatively material (but quantitatively immaterial) fraud committed by management; for example, what work effort is required to address risks of fraud related to directors’ expenses? Surely the expectation is not that auditors would test every expense claim for each director, although it would be reasonable to expect auditors to evaluate the circumstances and respond appropriately if they became aware of any issue with director claims. Greater clarity around the expected work effort in this situation would be useful to avoid misunderstanding and manage expectations; for example ED-240.A11(a) refers to “insignificant” which is not the same as “not material” and also talks of frauds being material “irrespective of the amount” (ignoring the concept of clearly trivial) – from this paragraph it could be inferred that inflated travel expenses would be significant regardless of the amount – is that the IAASB’s intention? It would be helpful to include practical, real life, examples in in the application material of when a quantitatively immaterial fraud may be considered qualitatively material.

Professional Skepticism

2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?

   (See EM, Section 1-D, paragraphs 19–28)

   (See ED, paragraphs 12–13 and 19–21)

Overall response: **Agree, with comments below**

Detailed comments (if any):

Although the proposed changes relating to professional skepticism seem reasonable in and of themselves, it is not clear whether the changes will necessarily drive different or better auditor behaviour in practice given that auditors already apply skepticism. Indeed, it is questionable whether standards are an effective means of achieving changes in a behavioural trait or attitude, such as skepticism, and merely peppering the standards with the word “skepticism” will not necessarily achieve the desired outcome.

We do not support removing the reference in ISA 240.14 to the ability to accept records as genuine and unmodified unless the auditor suspects the contrary. This may create an expectation that auditors will treat every record or document as potentially fraudulent, and the associated guidance and examples in ED-240.A26-A27 may be seen as additional de-facto “requirements” when assessing the reliability/authenticity of evidence, as it is not unusual to see the content of application material to be considered a requirement/good practice by regulators and others. Furthermore, it may not be possible for the auditor to discern the conditions listed in the application guidance. It would also be helpful to clarify that the auditor is not required to consider all of these factors in reviewing records or documents.

We support removal of the reference to preconceptions based on past experience of the honesty and integrity of management and TCWG (extant ISA 240.13), given the need to approach each audit anew.

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)[1] and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?

   (*See EM, Section 1-F, paragraphs 36–46)*

   (See ED, paragraphs 26–42)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

We do not believe that ED-240 builds on the foundational requirements in ISA 315 (Revised) as the existing requirements in ISA 315 largely appear to be repeated in the proposed standard. This continues a trend in recent years where concepts from ISA 315 (Revised) are repeated in other standards as and when they are updated. We believe that requirements for risk assessment should be contained within ISA 315 (via conforming amendments if necessary) rather than scattered through multiple individual standards, in this case repeating requirements with the addition of the word “fraud” where relevant to existing ISA 315 content.

This trend is leading to a circularity in the standards which can sometimes be confusing, an example of which relates to the difference between how inherent risk factors are dealt with in ISA 315 (five inherent risk factors to consider) and ED-240 (with around 80 examples of events or conditions that could give rise

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

to fraud risk factors). The IAASB may wish to consider whether different terminology should be used in ED-240 such as “indicators of fraud” rather than fraud risk factors. Furthermore, despite the significant content on fraud risk factors, it is not clear how these may impact the fraud risk assessment itself.

The reference in ED-240 to considering and reporting on control deficiencies from a fraud perspective appears to imply that auditors should be testing the operating effectiveness of controls – it is not clear if this is the IAASB’s intention. More importantly, the proposals do not take account of the fact that there may be more important control deficiencies in other areas of the audit that do not need to be reported in the same way that control deficiencies over fraud are, raising the importance of fraud in every audit even where other risks and findings may be more relevant.

Analysis of how the IAASB considers that the following procedures would have led to the identification of fraud risks and/or discovery of previous frauds would be powerful when updating the standard:

- ED240.26 - will this lead to step change in behaviour over and above ISA315.13?
- New requirements in ED240.33 compared to ISA315.19
- New requirement to consider whether deficiencies are relevant to fraud.

We note that requirements around analytical procedures (ED240.31 & ED240.54) and those relating to fraud in revenue (ED 240.41) include a change in work effort from “evaluate” to “determine”, but we do not believe that these changes will shift the dial in auditor behaviour or lead to a substantive change in the work performed or documented in these areas. These changes represent further examples of where changes to the standard may appear likely to have a more significant impact than they will have in reality.

We note that ED240.A111 appears to give more flexibility for auditors to rebut the presumption of fraud in revenue, referring to situations “where fraud risk factors are not significant” and we welcome this change in emphasis compared to the extant standard which may go some way to addressing our comments above. Further guidance would be helpful to assist auditors considering the rebuttal of the presumption of fraud in revenue recognition, using realistic examples of when the auditor may appropriately rebut the presumption and, equally importantly, when it may not be appropriate to rebut the presumption. For example, it may not be appropriate to rebut the presumption when:

- revenue is a key performance indicator when assessing the entity's financial performance
- the compensation of management and/or sales staff depends significantly on the revenue achieved
- there are changes in the accounting principles that provide an opportunity for management to commit reporting fraud or that reveal a lack of (or significant deficiency in) internal control for controlling these changes in the accounting principles
- the entity applies aggressive accounting policies for revenue recognition
- the entity applies revenue recognition accounting policies that are unusual for the industry
- the entity operates in an emerging market
- revenue is based on significant estimates, such as an overtime revenue recognition method based on an estimated input
- revenue recognition accounting principles can be interpreted in different ways

- revenues are based on complex contractual terms with a high degree of uncertainty, for example, contracts in construction, manufacturing and/or contracts with multiple parts ("multiple arrangements")
- the entity has a known history of significant adjustments for improper revenue recognition (e.g., recognizing revenue too early)
- the company deals in high-value goods that are easily misappropriated
- a significant portion of revenue is realized through cash sales.

We believe that the application material relating to risk identification and assessment could be enhanced, for example:

- ED240.29 - Indicators of potential challenges arising from poor standards of culture, integrity and ethical values and how they might give rise to fraud risks
- Engagement team discussion – guidance on topics such as potential pitfalls for team discussions (e.g. lack of preparation, engagement team dynamics and attitude of team members) and the need for the engagement partner to create an open and frank discussion
- ED240.61 - Risk factors around strategy may include business opportunities (e.g. the entity targeting an exclusive contract, gaining footprint in a new market, obtaining guarantees to become or remain the preferred supplier)
- ED240.35b – Guidance on inquiries of management may be strengthened by providing examples of topics to discuss or questions that auditors may consider
- ED240.31 – Guidance around performance of analytical procedures could be enhanced by providing examples of analytical procedures which may be more likely to identify potential fraud risks (e.g. use of longer-term trends, ratios, industry or competitor comparison and non-financial performance measures which may identify inconsistencies with financial information)

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: **Disagree, with comments below**

Detailed comments (if any):

We are concerned with the reference in ED240.7 that "suspected fraud includes allegations". These are two very different concepts and, although allegations may lead to suspected fraud, it is not appropriate to treat all allegations as suspected fraud as this could lead to an unnecessary burden in terms of work effort due to the lower bar where auditors need to take action. As written ED240.7 suggests that any allegation should be treated as suspected fraud. We suggest that IAASB may wish to consider a conditional requirement for auditors to assess whether an allegation has merit and is indicative of a fraud and, only where they conclude there is a risk, take further action as appropriate.

We support the creation of a separate section of the standard setting out the requirements when responding to identified fraud or suspected fraud set out in ED240.55-59. These requirements are largely clear and logical in setting out what an auditor would reasonably be expected to do where fraud or suspected fraud is identified. However, we make the following observations:

- As noted above, the requirement in ED240.55 to "determine whether control deficiencies exist" may indicate an expectation that the auditor would test the operating effectiveness of controls, which is not the case in every audit. It is not clear if this this the IAASB's attention. Greater clarity could be provided as to expectations in this area.
- Furthermore, as noted above, we are concerned that the requirements in ED240.55 also create an impression that auditors may be more responsible for identifying fraud related control deficiencies than for other deficiencies (e.g. related to error), which we do not believe is appropriate.
- The requirement in ED240.55 to make inquiries with "a level of management that is at least one level above those involved" may appear logical in larger, complex entities but the application of this requirement in smaller, less complex entities (such as owner managed businesses) will be problematic. The IAASB may wish to provide greater clarity over how this requirement can be scaled to different types of entity. Furthermore, there may be circumstances where the auditor may potentially be in a position of 'tipping off' management when making fraud-related enquiries which, in some jurisdictions, may be a criminal offence; for example, where the auditor makes a disclosure likely to prejudice a money laundering investigation when discussing an identified or suspected fraud with the potential perpetrators.

We suggest adding a further example to ED240.A29: "A regulatory authority has commenced an investigation at the entity".

Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report

5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report?

   (*See EM, Section 1-H, paragraphs 58–78)*

   (See ED, paragraphs 61–64)

Overall response: **Disagree, with comments below**

Detailed comments (if any):

While we appreciate why the IAASB wishes to increase transparency of reporting relating to fraud in the auditor's report, we do not support the proposals in ED240. In particular, we are concerned that the proposals to include a separate section on fraud-related Key Audit Matters (KAMs) may increase the expectation gap around the auditor's responsibilities relating to fraud. Furthermore, and more importantly, we are concerned about the proposed requirement to explicitly state that there are no KAMs related to fraud. We believe this has the potential for audited entities and other stakeholders to place undue reliance and make an assumption that the financial statements are free of all fraud, or to assume that auditors are more responsible for prevention and detection of fraud than they actually are.

It is not clear why fraud related matters are being elevated above all other risks and matters arising from an audit, especially where there may well be much more important issues, risks, deficiencies and other findings in individual audit engagements such as the impact of geopolitical issues, economic volatility, cyber-related risks or sector specific matters. Investors value the insights that KAMs bring to the audit report, and we believe that reporting should reflect the risks facing the entity rather than include an artificial construct to report on fraud risks in all cases.

The proposals, as written, lead to a risk of boilerplate reporting particularly in relation to the presumed fraud risks around management override of controls and revenue recognition. Indeed, following the introduction of KAMs in the UK a number of years ago, it was quickly realized that including standard reporting around the presumed risks did not necessarily add value to auditor reporting and the inclusion of these two fraud risks as KAMs reduced rapidly.

Finally, we note that there may be unintended consequences where an auditor identifies a fraud during the engagement but which cannot be reported publicly on the grounds of confidentiality. In this situation, the auditor's report would have to include a statement that there are no fraud related KAMs to report, which would be blatantly untrue. Such a situation may also give rise to concerns with compliance with money laundering requirements in some jurisdictions where the auditor must be wary of the risk of potentially "tipping off" the perpetrators of a fraud where they have concerns (see also Question 4).

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

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

   (See ED, paragraphs 61–64)

Overall response: **Disagree, with comments below**

Detailed comments (if any):
Transparency in the audit report around fraud related matters should not be extended to entities other than listed entities, to which KAMs do not currently apply. In our view reporting fraud risks in a different category in KAMs unnecessarily elevates the important of fraud and the auditor's role and responsibilities and we do not support similar reporting in entities to which KAMs do not currently apply.

Considering a Separate Stand-back Requirement in ED-240

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

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

Overall response: **Agree, with comments below**

Detailed comments (if any):
We support the decision not to include a separate stand-back requirement in ED240, largely on the basis that there has been a recent proliferation in stand-backs in auditing standards and that the existing

requirements in ISA 315 and ISA 540, taken together with other requirements mean that an additional stand-back in the special considerations Fraud ISA is unnecessary.

More generally on this topic, we believe that the IAASB should establish what it means by a “stand-back”, perhaps including distinguishing between this and other procedures, such as concluding based on available evidence. Having defined a stand-back more clearly, the IAASB should then consider when and where such a procedure is needed throughout the suite of standards and update them as necessary.

Scalability

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

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

Overall response: **Disagree, with comments below**

Detailed comments (if any):

Given that fraud related matters are relevant to audits of all types of entity, we appreciate the efforts made by the IAASB regarding scalability, including considerations for smaller or less complex entities (ED240.A58) and the conditional requirements highlighted in para. 113 of the explanatory memorandum.

However, we do have significant concerns that the standard is clearly written for, and targeted to, audits of larger, more complex, public interest entities, as with many of the revised standards in recent years. There are two main areas where ED240 gives rise to scalability concerns, with the proposals predicated on:

- *an expectation of the use of forensic experts* - In the extant ISA240, forensic experts are referred to only once, compared to more than 25 references in ED 240, suggesting a potential expectation gap around forensic specialists being required on audits, which in the majority of cases would be unnecessary
- *control structures not seen in smaller, less complex entities* – as noted above, ED240.55 appears to raise an expectation that auditors will test the operating effectiveness of controls and also requires auditors to make inquiries with “a level of management that is at least one level above those involved” – in many entities such a control environment and management structure may not exist.

Forensic specialist involvement is usually restricted to audits of large, complex entities performed by larger firms with in-house forensic accountant teams at their disposal and, typically, their involvement is in response to known issues (e.g. identified fraud indicators) rather than when identifying and evaluating fraud risks as part of the audit engagement. The importance of managing the expectation around the use of forensic experts and scalability cannot be overstated. Many firms will not have access to forensic skills and any expectation that such skills are applied routinely in audit engagements could have significant unintended consequences around competition and choice in the audit market.

We believe that greater scalability could be built into the standard through the use of more conditional requirements, based on complexity of the condition rather than necessarily the complexity of the audit or the audited entity, including:

- the complexity of the control environment (driving requirements around controls and deficiencies) and
- the complexity of any frauds or suspected frauds identified (driving the need to consider involvement of forensic experts).

In this way, conditional requirements may typically apply for larger, more complex, public interest entities than for a smaller, less complex entity with a simple control environment, but would also reflect the circumstances of individual engagements. Additional guidance including examples of situations where the audit engagement team could deal with a fraud situation itself, or which may give rise to the need to involve forensic experts, would be very helpful.

We note that the IAASB has expanded the requirements around incorporating an element of unpredictability in the response to cover all fraud risks, not just those at financial statement level. This change has gone largely unnoticed but is likely to impact on the work effort and documentation when responding to assertion level fraud risks. It would be helpful if the IAASB could clarify whether this was its intention and, if so, provide examples to support auditors in applying unpredictability in assertion level risks.

We are concerned with the scalability of ED-240.56 with the requirement for the engagement partner "to determine whether to" perform certain risk assessment procedures and design and perform further audit procedures. We believe that complying with this requirement may be challenging (e.g. in very large audits with a large volume of considerations or group audits where barriers may arise due to language/cultural differences). Whilst we agree that it is appropriate for the engagement partner to take overall responsibility for the audit, we believe that scalability can be achieved by requiring the auditor to perform the procedures described in ED-240.56 and adding an overall requirement regarding the engagement partner's responsibilities.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, ISA 540 (Revised) and ISA 701) to promote the application of the ISAs in an integrated manner?

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

Overall response: **Neither agree/disagree, but see comments below**

Detailed comments (if any):

See our responses to other questions for examples relating to linkages and potential circularity/repetition of other standards, including ISA 315.

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):

The changes highlighted in para. 104 of the explanatory memorandum regarding journal entry testing are not transformative and, in reality, merely reflect what most auditors are already doing when testing journal entries and will not therefore have a significant impact on identification of fraud. Furthermore, changing "consideration" to "determination" of the need to test journals throughout the year is not going to make a difference to the work performed. Again, these changes may raise an unreasonable expectation that the revised ISA 240 will make a significant difference when, in reality, not much will change in many audits.

The first example in ED240.A63, relating to the construction industry, conflates incentive and opportunity and would benefit from clarification.

We believe that further guidance would be helpful in relation to fraudulent financial reporting, including by whom and why fraudulent financial reporting may be committed. For example:

- Financial reporting fraud can be committed by anyone at any level of the organization, from top to middle management to executive staff. Several studies in the United States show that in the majority of cases, the CEO, CFO or both were the perpetrators.
- Extant Standard 240.A2 states that management in particular is motivated to prepare fraudulent financial reports as a result of pressures and incentives. However, management is often not the person who makes journal entries or prepares financial statements. Often, management instruct or enforce an employee to process transactions in a certain way. Thus, management is often the *intellectual* perpetrator and the employee the *factual* perpetrator.
- Fraudulent financial reporting does not always begin with an intentional act to distort financial statements. In some cases, fraudulent financial reporting is the result of a series of actions designed to respond to operational problems with the goal of achieving financial objectives or being able to meet expectations. For example, a manager may begin by maximizing the maximum useful life for fixed assets within the boundaries of the accounting policies but when this fails to achieve the desired results, the manager becomes a potential fraudster by engaging in actions that violate accounting policies. This is particularly the case when top management allows or even encourages this type of action. Albrecht et. al (2019) calls this a "slippery slope". that what begins as a seemingly innocent case of "earnings management" develops into fraudulent financial reporting.
- Hamilton & Smith (2021) find that auditors are less skeptical of an omitted transaction compared to a mis-recorded transaction. They are also less skeptical of a misstatement that results from management omitting information from a supporting document compared to misrepresenting information. Overall, their studies identify a method of fraud—omission—that managers are likely to use, but that auditors are unlikely to judge as being intentional.

Translations

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

Overall response: **No response**

Detailed comments (if any):

No comments.

Effective Date

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

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

    (See ED, paragraph 16)

Overall response: **See comments on effective date below**

Detailed comments (if any):

We agree with the need to coordinate the effective dates of the Fraud, Going Concern and Listed Entity projects and do not object to the proposed effective date.