

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)	Grant Thornton International Ltd
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	R. Trent Gazzaway
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Katherine Schamerhorn Claire Revenig
E-mail address(es) of contact(s)	Katherine.Schamerhorn@gti.gt.com Claire.Revenig@us.gt.com
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).	

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 support the IAASB's project to revise ISA 240 to clarify the auditor's responsibilities related to fraud and recognize that many proposed revisions memorialize procedures that auditors are performing today. Prior to approving ED-240, we believe certain revisions are necessary to avoid perpetuating the existing expectations gap and ensure the standard can be operationalized.

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):

Overall, we believe ED-240 clearly defines the auditor's responsibilities related to fraud in an audit of financial statements, however we have two areas of concern.

First, we believe that the proposed revisions in ED-240 to present the auditor's responsibilities related to fraud before management's and those charged with governance's responsibilities may perpetuate the existing expectation gap related to the auditor's responsibility to detect fraud. We suggest the IAASB:

- Present management's and those charged with governance's responsibilities before the auditor's responsibilities as management and those charged with governance are ultimately responsible for establishing processes and controls to prevent and detect fraud. Re-ordering these paragraphs as we suggest would be consistent with the presentation of management's and the auditor's responsibilities related to going concern in ISA 570 (Revised).
- Similar to 570 (Revised), add an example of management's responsibilities related to implementing controls to deter and detect fraud under the COSO Internal Control – Integrated Framework (2013) and COSO Fraud Risk Management Guide or ISO 31000 to the paragraph describing management's responsibilities.

Second, we believe further clarification is needed regarding the auditor's responsibilities related to third-party fraud. The requirements in ED-240 are in the context of fraud committed by management and others within the entity and there is no mention of third parties in the requirement paragraphs. Furthermore, the application material contains limited guidance related to fraud and suspected fraud involving third parties. It is unclear from ED-240 how the Board believes auditors should evaluate the risk of fraud involving third parties as it relates to the fraud triangle and how auditors would identify fraud involving third parties. The way in which ED-240 discusses third-party fraud is inconsistent with how auditors consider fraud today. This is problematic as it relates to the auditor's responsibilities to evaluate fraud risk factors. Based on the application material in ED-240, paragraph A56, fraud risk factors exist when just one arm of the fraud triangle is present; we interpret this to mean that if there is pressure for one third party to commit fraud, all third parties are part of the fraud risk assessment and response, which we do not believe is appropriate. Further, it is not clear from ED-240 how the auditor would identify incentives or an ability to rationalize as it relates to third parties given the limited nature of interaction between auditors and third parties.

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):

We believe ED-240 appropriately reinforces the exercise of professional skepticism throughout the audit as it relates to matters relating to fraud in an audit of financial statements, see Question 10 for our response related to the proposed revision to ED-240, paragraph 20.

Risk Identification and Assessment

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

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

(See ED, paragraphs 26–42)

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

Detailed comments (if any):

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

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 have several concerns with how to operationalize the requirements in ED-240, paragraphs 55-56, as noted below. We believe the work effort requirements and application material related to ED-240, paragraphs 57-59 and 66-69 are appropriate.

Concerns related to requirements in ED-240, paragraph 55:

- We believe the requirement in the lead-in of ED-240, paragraph 55 will limit scalability of the requirement for group audits and very large audits by not including an element of auditor judgment in determining whether it is necessary to obtain such a thorough understanding of identified or suspected fraud. For example, at these types of entities, if management has robust controls to detect fraud, it is likely that many immaterial instances of fraud or suspected fraud may be identified by management, investigated, and determined to not present a material risk to the overall control environment or financial statements. Such a scenario could include tips to the whistleblower hotline by disgruntled employees, or limited instances of timecard fraud or company credit card fraud. Additionally, in certain industries, such as the retail industry where individually low value sales are conducted in cash, there is a higher risk of low value fraud and in fact management may tolerate a certain level of such fraud. In these cases, using a risk-based framework, the engagement partner may obtain an understanding of the matters in aggregate through inquiries of management and other procedures as necessary, and reasonably conclude the matter does not need to be discussed with those charged with governance and that detailed documentation in the audit file is not necessary. We suggest the IAASB revise the lead-in of ED-240, paragraph 55 to allow the auditor to exercise judgment in determining the nature, timing, and extent of procedures performed.
- We believe the requirement in ED-240, paragraph 55(b) is not appropriately scalable to smaller entities, such as owner-managed entities that may not have a formal process to investigate fraud but will still investigate allegations of fraud or suspected fraud via an ad-hoc process. In practice, the auditor would still understand and evaluate management's investigation of the matter. We suggest the IAASB revise the requirement to indicate that the auditor evaluates management's process to investigate the matter and determine whether it is appropriate in the circumstances. We believe the second example in ED-240, paragraph A151 should also be removed or revised as we believe the lack of a formal process to investigate fraud or suspected fraud may not always be an indicator of a significant deficiency (such as in the case of a smaller entity or owner-managed entity).
- We suggest the requirement in ED-240, paragraph 55(d) be revised to include consideration of whether internal control deficiencies exist in management's remediation measures.

- We suggest removing and/or revising the first example presented in ED-240, paragraph A146 as it implies that management knew of the fraud and did not reveal the matter to the auditor during planning, which would give rise to other fraud risk indicators and may lead to a different conclusion by the engagement partner than the conclusion presented in the example.

Concerns related to requirements in ED-240, paragraph 56:

- We do not believe this requirement for the engagement partner to perform the listed procedures can be appropriately operationalized as written on group audits or very large engagements. As it relates to group audits, we believe there are scenarios where the component engagement partner or component auditor may be better suited to perform these procedures due to language and cultural understanding as well as potential access limitations. As it relates to very large engagements, we believe the requirement as written may have the unintended consequence of the group engagement partner spending a disproportionate amount of time on immaterial fraud or suspected fraud at the expense of time that could be spent on significant transactions and other significant risks. It may be appropriate to delegate the fraud procedures listed in paragraph 56 to other members of the engagement team. We believe this requirement should be written in a manner consistent with ISA 600 (Revised), in which the auditor performs these procedures with the engagement partner taking ultimate responsibility for the direction, supervision, and review of the work.
- We believe the requirement in ED-240, paragraph 56(a) has a typo as these procedures are already required under ISA 330. We suggest the IAASB revise to include the word additional: "To design and perform **additional** further audit procedures..."
- We suggest the IAASB revise ED-240, paragraph 56(b) to include consideration of fraud and suspected fraud related to subsequent events.

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):

We believe that the current KAM reporting mechanism in ISA 701 is operating effectively. We do not agree with the proposed KAM filtering mechanism in ED-240 or the requirements to use a KAM sub header specific to fraud or the requirement to include a statement that there are no key audit matters related to fraud to communicate (when applicable based on the facts and circumstances of the engagement). As such, we suggest the IAASB remove the KAM requirements from ED-240 (paragraphs 61-64), which will result in auditors continuing to use ISA 701 to identify and communicate KAMs. We considered the following in making this suggestion:

The proposed KAM filtering mechanism is flawed for the following reasons:

- ISA 701 in its current form does not prohibit an auditor from identifying a fraud-related matter as a KAM.
- The application material for the proposed KAM filtering mechanism is vague, and we question whether any matters listed ED 240, paragraph 61 could be filtered out. Specifically, we question whether it is appropriate to disclose suspected fraud as a KAM given the investigation into such matters is likely ongoing. Additionally, we do not believe all identified fraud rises to the level of a KAM (for example, petty theft at a retail location or isolated incidences of timecard fraud). Under ISA 701, we believe that disclosure of fraud related matters as a KAM would focus more appropriately on those matters associated with a material risk of misstatement (qualitative or quantitative) and the language in ED-240 does not consider whether the fraud matters are material.
- We disagree with the example in ED-240, paragraph A165 which states that significant transactions with related parties or outside the normal course of business are fraud-related KAMs. The language in this example does not provide any filtering mechanism for the auditor to determine that such matters do not rise the level of a fraud related KAM.
- We do not believe the example included in ED-240, paragraph A173 is sufficiently specific to prevent the use of boilerplate fraud related KAMs and avoid the auditor providing original information in the auditor's report that management has not disclosed. If, despite the concerns listed here, the IAASB retains specific language related to fraud KAMs in ED-240, we suggest that a more specific example is provided or that nonauthoritative guidance is issued when ED-240 is approved.
- We believe that disclosures related to the presumed fraud risk of management override of controls will be boilerplate language to meet the implied requirement that the audit report should have at least one fraud related KAM, which would not be beneficial to users of the financial statements or enhance their understanding of the audit.

The proposed KAM sub header specific to fraud is flawed for the following reasons:

- We believe an unintended consequence of this sub header is that it may detract from non-fraud KAMs in the auditor's report that are potentially of more importance to the user of the financial statements than a KAM about immaterial fraud or suspected fraud or a statement that the auditor did not identify a fraud KAM.
- Another unintended consequence is that the inclusion of such a sub header may imply that KAMs are identified and treated differently if they relate to fraud. It is unclear if that is what the Board intends.

The requirement to include a statement that there are no key audit matters related to fraud to communicate (when applicable based on the facts and circumstances of the engagement) is flawed for the following reasons:

- We do not believe the absence of a fraud related KAM meets the definition of a KAM as currently presented in ISA 701. As a result, we believe this requirement will weaken the relevance and importance of KAMs overall.
- We are concerned that the proposed requirement in ED-240, paragraph 64 will be interpreted by users of the financial statements as negative assurance that there is no fraud. As noted in the inherent limitations in ED-240, auditors are not expected to identify all fraud, and in fact, may not be able to identify fraud if collusion is present. For these

reasons, we believe this statement will perpetuate the existing expectations gap and may have the unintended consequence of eroding the public's faith in the value of an audit if the auditor includes a statement that there is no fraud related KAM and fraud is later identified and reported in the news. The risk of this unintended consequence is magnified since the auditor's requirements related to third party fraud, as proposed, are at the same level as the requirements related to fraud perpetrated by management and others at the entity.

- We do not think the inclusion of such a negative assurance statement within a reasonable assurance report is appropriate.

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):

We do not agree with extending the extant differential requirements for communicating KAM (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED) to apply to PIEs. The definition of PIE as proposed in the Listed Entity and PIE Track 2 project ED may not be consistent with the definition of PIE for independence requirements, leading to inconsistencies within the auditor's report regarding whether the entity is treated as a PIE or not (see our response to Question 2 in our PIE Track 2 comment letter). Further, the IAASB has not shown that the benefits of communicating KAM outweigh the costs for PIEs or publicly traded entities other than listed entities.

We believe the differential requirement related to communicating KAM should only apply to listed entities. Accordingly, we believe there should be no changes to extant requirements related to communicating KAM, unless a cost-benefit analysis supports extending the requirements to PIEs and inconsistencies in the definition of PIE are resolved.

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

Detailed comments (if any):

We agree that the existing stand-back requirements in other standards are sufficient. We suggest that the IAASB develop a holistic approach to when it is appropriate to include stand-back requirements in topic-specific ISAs to promote consistent inclusion of stand-back requirements across the suite of standards. Inconsistencies in practice may occur when there is a stand-back requirement included in some standards and not within other standards.

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):

See our response to Question 4.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² ISA 220 (Revised),³ ISA 315 (Revised 2019), ISA 330,⁴ ISA 500,⁵ ISA 520,⁶ ISA 540 (Revised)⁷ and ISA 701⁸) to promote the application of the ISAs in an integrated manner?

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

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

Detailed comments (if any):

Overall, we believe ED-240 has appropriate linkages to other ISAs; however, we have concerns about the anticipated maintenance that will be required to maintain the suite of ISAs, especially given the upcoming Integrated Audit Evidence and Risk Response project, which could result in conforming amendments to ED-240 just as it becomes effective.

Additionally, we have concerns about the linkage in ED-240 to ISA 560 and ISA 330 as we think ED-240 blurs the separate requirements related to testing journal entries and other requirements. We suggest the

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*

IAASB add clarifying language to the requirements in ED-240, paragraphs 49 – 50 and related application material to apply the fraud lens to these requirements.

Other Matters

10. Are there any other matters you would like to raise in relation to ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

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

Detailed comments (if any):

We have identified the following additional matters in relation to ED-240:

- We support the IAASB's project to revise ISA 240 to clarify the auditor's responsibilities related to fraud and recognize that many proposed revisions memorialize procedures that auditors are performing today. As such, many of the revisions will not result in changes in practice by auditors at larger firms which have methodologies based on the ISAs.
- We question whether the volume of application material added is necessary or appropriate for a risk-based standard. We have concerns that the volume of application material compared to requirements is not aligned with the IAASB's CUSP principles. According to CUSP, the purpose of application material is to support the proper application of the requirements and should not impose additional requirements. It further states that not all requirements need application material. We note that nearly all requirements in ED-240 have multiple application material paragraphs supporting the requirement, with one requirement having nine paragraphs of application material. While we appreciate that one of the purposes is to explain more precisely what a requirement means or is intended to cover, the requirements themselves need to be clear on what the auditor is required to do. We suggest the IAASB 1) more vigorously review the application material and remove those paragraphs that do not specifically add a fraud lens, and 2) consider whether certain application material paragraphs may be better placed in an appendix or moved to nonauthoritative guidance.
- We do not agree with revisions to ED-240, paragraph 20. The auditor's role related to the authenticity of documents is pervasive to the audit and belongs in ED-240, not in ED-500. The auditor's role, which differs with respect to the integrity of information, is not to evaluate the authenticity of every document intended to be used as audit evidence. Rather, if the auditor becomes aware of concerns regarding the authenticity of a document when performing audit procedures over the relevant attributes, the auditor reevaluates both the use of that information and whether there is a fraud risk. When authenticity is listed as an attribute of audit evidence (as proposed in the last draft of ED-500), on the same level as the attributes of completeness and accuracy, for example, the standards create a disconnect between the risk of fraud and the risk that a document is not authentic. The proposed revisions to ED-500 that focus on authenticity appear to contradict the auditor's responsibility related to identifying and assessing fraud risks. We believe that the revisions in the last draft of ED-500 will cause confusion as to the intent of how auditors are expected to consider and address authenticity. We believe the IAASB should:
 - Revert paragraph 20 in ED-240 to the existing requirement in ISA 240, paragraph 14

- Remove the requirement to evaluate the risk of material misstatement due to fraud in ED-500, paragraph 12A
- Remove authenticity as an attribute of audit evidence in ED-500, paragraph A56
- Remove the guidance in ED-500, paragraphs A44, A50, A56D, A56F – A56H, and revise the example in the last bullet of ED-240, paragraph A80 to discuss examples related to another attribute of audit evidence
- We suggest the IAASB consider revising the objective in ED-240, paragraph 17(d) to say to “communicate” in accordance with this ISA in order to capture the auditor’s responsibility to communicate certain matters to management and those charged with governance as well as to report to users via the auditor’s report.
- We suggest adding a requirement after ED-240, paragraph 65 to link to ISA 580, paragraph 20 which requires the auditor to disclaim an opinion on the financial statements, in accordance with ISA 705 if the auditor concludes that there is sufficient doubt about the integrity of management [and those charged with governance] such that the written representations required are not reliable. We believe based on the precedent set earlier in the standard linking to other ISAs that it is appropriate to capture the auditor’s requirements when they are unable to obtain representations from management or those charged with governance when they are involved in the identified or suspected fraud.

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):

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 that it is in the public interest to align the effective dates for ED-240 with the effective dates for the going concern and PIE Track 2 projects. We believe early adoption of ED-240 should be tied to early adoption of both ISA 570 (Revised) and the narrow scope amendments from the PIE Track 2 project to prevent piecemeal adoption of standards impacting the auditor's report.