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)	PricewaterhouseCoopers International Limited
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	James Chalmers
Name(s) of contact(s) for this submission (or leave blank if the same as above)	James Chalmers and Gilly Lord
E-mail address(es) of contact(s)	james.chalmers@pwc.com gillian.lord@pwc.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:

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):

Overall comments

Existing ISA 240 (Revised) establishes appropriate responsibilities for the auditor with respect to considering risks of material misstatement due to fraud. However, we agree that, in key areas, these responsibilities can be further clarified and enhanced. Fraud continues to be a persistent topic of discussion in respect of the requirements of an audit, resulting from both potential misunderstanding of the responsibilities of an auditor with respect to fraud and the ability of an audit to detect fraud, as well as a desire from some stakeholders for auditors to provide greater transparency about their work in this key area. We recognise the public interest benefits of more transparency about the work of the auditor that is responsive to the risks of material misstatement due to fraud. As such, we are supportive of the overarching objectives of the IAASB's project to revise ISA 240, aimed at enhancing the clarity and robustness of the auditor's responsibilities regarding fraud in an audit of financial statements and the transparency thereof.

As a network, PwC is focused on enhancing the execution and transparency of our work regarding fraud. Appropriate auditing standards that are responsive to stakeholder needs, together with consistent application of them by auditors, are important elements to maintaining trust in the audit profession. We support many of the proposed changes and believe they will help reinforce appropriate procedures and auditor behaviours.

In expressing that support, we note that corporate reporting operates within a complex ecosystem, comprising various interconnected stakeholders, including preparers, those charged with governance, investors, regulators and other users. Auditors have an important role to play in addressing the expectations of these participants, and therefore strengthening the auditing standards is one element in achieving this. The auditor's response to identified and suspected fraud can result in material impacts from fraud being pre-empted. However, to complement performance of quality audits and fully address elements of users' expectations, we believe that solutions that deliver meaningful change demand a comprehensive approach involving active engagement from all stakeholders. For example, changes could be considered by global regulators and standard setters, to enhance management's focus on establishing and monitoring processes and controls to identify, assess and respond to risks of fraud, given the different approaches that may exist from a legal or regulatory perspective in various jurisdictions and in relation to the nature of the entity (e.g., public interest entities vs. private companies). Furthermore, more fulsome disclosure by listed and other public interest entities about such processes and controls, which could include a statement by management on the effectiveness of internal controls over financial reporting, including controls related to fraud, would provide useful transparency to users of financial statements and be in the public interest. Similarly, for such entities, those charged with governance have an important role to play by explaining how they have considered and, where relevant, challenged management on the effectiveness of such processes and controls. We believe it is important that such responsibilities are established in law or regulation and that, similar to management, disclosure by those charged with governance of how they have discharged those responsibilities provides meaningful transparency for users. While outside the remit of the IAASB, these are areas – similar in nature to recognising the overall responsibility of management with respect to an assessment of an entity's ability to continue as a going concern – where respective responsibilities need to be transparent and balanced. We encourage the IAASB to continue in active dialogue with other stakeholders in the reporting ecosystem to influence broader change.

In this regard, we note the 'Introduction' section is intended to highlight management's and those charged with governance's responsibilities and other key concepts in the proposed standard. To avoid the risk that this section might be misinterpreted or be viewed as potentially undermining the requirements in the standard that set out the obligations of the auditor, due to the use of the shorthand references in certain paragraphs of ED-240 as to whether fraud or suspected fraud is or is not "material", we recommend paragraph 8 is clarified as shown below.

"~~The auditor's determination of w~~Whether a fraud or suspected fraud is material in the context of an audit of ~~to the~~ financial statements, including whether it gives rise to a material misstatement of the financial statements, involves the exercise of professional judgment. This includes consideration of the nature of the circumstances, giving rise to the fraud or suspected fraud and the identified misstatement(s). Judgments about materiality involve both qualitative and quantitative considerations."

Third-party fraud

With respect to the proposed changes concerning the auditor's responsibilities regarding fraud, we believe further clarity is needed regarding the IAASB's intent with respect to fraud committed against the entity by third parties. Paragraph A16 of the application material in ED-240 acknowledges that the auditor may have "additional" responsibilities when fraud or suspected fraud perpetrated by a third-party is identified and that such responsibilities may arise under law, regulation or relevant ethical requirements. However, the guidance does not clearly explain whether the auditor is expected to conduct audit procedures or to investigate such instances of fraud or suspected fraud in conducting an audit in accordance with ISAs. Paragraph 92 of the Explanatory Memorandum (EM) that accompanies ED-240 states that the *"IAASB did not support expanding the role of the auditor to detect third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements. However, the IAASB enhanced the application material in paragraph A16 of ED-240 by explaining the auditor's action if third-party party fraud or suspected fraud is identified by the auditor that may give rise to risks of material misstatement due to fraud."* We do not believe that paragraph A16 as currently drafted, which also refers to, as an example, the effects of a cybersecurity breach, clearly explains this intent. Further clarification of the IAASB's intent may be helpful in paragraph A21.

While we agree that cybersecurity risks can affect financial reporting, and certain jurisdictions have increased their focus on company disclosures regarding cybersecurity risk management programs and disclosure of cybersecurity incidents, cybersecurity may not be the best example to use to illustrate the concept of third-party fraud. An example based on fraud by a supplier of goods or services to the entity may be more appropriate. However, the IAASB should consider whether a more fulsome discussion of cybersecurity is warranted by the Board in the context of its separate Technology workstream.

Non-material fraud

With respect to non-material fraud, we support paragraph 6 of ED-240 but believe it may remain unclear that the auditor does not have to apply the response requirements in relation to an identified or suspected fraud that is clearly not material, including matters that are clearly inconsequential – a phrase used in the IESBA NOCLAR provisions. We suggest a second sentence is added to paragraph 6 to make this explicit. For example:

"Although matters may be identified during an audit that may constitute fraud in a broad legal sense, the auditor is not required to respond to matters that clearly could not result in material misstatement of the financial statements."

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):

Professional scepticism is a fundamental element of an audit. Although some of the new or enhanced requirements proposed by the Board, such as those outlined in paragraphs 19 to 21, may already represent best practice behaviour in quality audits, we believe that the proposed changes, including the revisions in respect of risk identification and assessment, engagement team discussions, and consideration of the need for specialized skills, may help reinforce behaviour underpinning the exercise of professional scepticism. However, we note that paragraphs A13-A14 have no fraud lens and are repetitive of other standards and should be deleted.

Notwithstanding the above, while we understand the Board's rationale for the decision to delete the statement from paragraph 14 of extant ISA 240 that "*unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine"*, we are concerned this may lead to confusion regarding the responsibilities of the auditor. We note the Board's intent, emphasised in paragraph 25 of the EM, that the deletion is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained during the audit. To ensure that message is understood, we recommend that paragraph A26 in ED-240 includes a cross-reference to the base principle that will remain in ISA 200 (paragraph A24 of ISA 200).

Further, we believe it may be necessary for the Board to revisit the linkage between paragraphs 20 and A26 of ED-240 and proposed ISA 500 (Revised) insofar as it relates to the evaluation of the attributes of audit evidence, including authenticity, to ensure the Board's objectives are clear in terms of the expected work effort and related documentation.

Risk Identification and Assessment

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

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

   (See ED, paragraphs 26–42)

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

Detailed comments (if any):

We support the Board's decision to align the structure of the requirements in ED-240 to mirror ISA 315 (Revised 2019). We also agree with the objective of supporting a more robust risk identification and assessment as it relates to fraud in an audit of financial statements. Aligning ED-240 with ISA 315 (Revised 2019) may help to enhance the consistency and effectiveness of the auditor's consideration of fraud as part of understanding the entity and its system of internal control, thereby promoting a more informed risk identification and assessment.

Paragraph 38 of the EM highlights the IAASB's intention to maintain a balance between ISA 315 (Revised 2019) and ED-240, ensuring that the requirements in the latter have a clear "fraud lens". We believe that this clarity has not been achieved for all proposed requirements. Paragraphs 37 and 38 of the ED are good examples of how the requirements clearly build on ISA 315 (Revised 2019) without duplicating the underlying ISA 315 requirements. We highlight the following examples where the incremental fraud considerations beyond the baseline ISA 315 (or other ISA) requirements are not clear. Where possible, we have provided a recommendation to address the matter:

- The lead-in language to paragraph 26 and part (a) of the requirement unnecessarily duplicates ISA 315 (2019 Revised). It also creates inherent circularity, as the lead in states that the requirement is "in applying ISA 315 (Revised 2019) [paragraph 13]". To illustrate, a full articulation of the requirement, inserting the underlying requirement from ISA 315 (Revised 2019), would be:

  "In designing and performing risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and the design of further audit procedures in accordance with ISA 330, the auditor shall perform the procedures in paragraphs 27–39 to obtain audit evidence that provides an appropriate basis for the: (a) identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels, taking into account fraud risk factors; and (b) design of further audit procedures in accordance with ISA 330".

- Paragraph 26(b) is similarly redundant, and we recommend is deleted, as it is directly repetitive of ISA 315 (Revised 2019) paragraph 13(b) with no fraud lens.

- We suggest an appropriate construct for paragraph 26 could be as follows:

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

"In designing and performing procedures in accordance with ISA 315 (2019 Revised) [footnote paragraph 13], the auditor shall perform the procedures in paragraphs 27-39. In doing so, the auditor shall consider whether one or more fraud risk factors are present."

The second element of the above suggested requirement also provides a better linkage to, and symmetry with, the subsequent requirement in paragraph 27 that requires the auditor to consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present.

- Paragraph 28 duplicates existing requirements in ISA 540 (Revised). Paragraph 14 of ISA 540 (Revised) already states that the auditor's review of the outcome of previous accounting estimates is to assist in identifying and assessing the risks of material misstatement and requires the auditor to take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The second sentence of paragraph 28 is therefore redundant. It is unclear if the reference to management judgements and assumptions in the first sentence of paragraph 28 is intended to signal a different work effort to the requirement in ISA 540 (Revised). We do not believe so, but it may be interpreted that way. Paragraphs 51 and 52 are more appropriate in how they link to the underlying work effort in ISA 540 (Revised) and primarily relate to risk identification and assessment. We therefore suggest deleting paragraph 28, which is unclear, and elevating paragraphs 51 and 52 to replace paragraph 28. In doing so, the following amendments would be necessary to paragraphs 51 and 52:

  51. "In applying ISA 540 (Revised) [requirement 14], the auditor's retrospective review of the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation shall include evaluating whether management's judgments and decisions in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias that may represent a risk of material misstatement due to fraud."

  52. "In performing the evaluation in accordance with paragraph 51, ~~the auditor shall:~~

  ~~(a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and~~
  ~~(b) I~~if indicators of possible management bias are identified, the auditor shall reevaluate the accounting estimates taken as a whole."

  We note that paragraph 52, as drafted in the ED and as recommended above, is largely duplicative of ISA 540 (Revised) paragraph 32. We understand the Board's rationale for repeating this requirement, to draw more specific attention to the risk of fraud. However, we suggest that if the ISA 240 (Revised) requirements are clarified as shown, paragraph A57 of ISA 540 (Revised) can be deleted.

- Paragraph 30 has no specific fraud lens and feels directly repetitive of the principle-based requirement in ISA 500 paragraph 11. If the Board determines it is important to retain a specific requirement in ISA 240 to focus on the possible impact of inconsistent responses from inquiries of various parties within the entity, we suggest amending the requirement as follows:

  "In applying ISA 500, if the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity are

inconsistent with each other, the auditor shall~~:~~ consider whether such inconsistencies indicate that one or more fraud risk factors are present.
~~(a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and~~
~~(b) Consider the effect, if any, on other aspects of the audit.~~"

- Paragraph 33 refers to the auditor obtaining an "understanding of matters" related to the entity and its environment and the applicable financial reporting framework that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. We agree with the intent of the requirement, however, we believe the structure could be improved. It is the understanding obtained of the various aspects of the entity and its environment and reporting framework described in the sub-parts of the requirement that may result in the auditor identifying matters that they consider may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors. We suggest the following restructured lead-in sentence (not shown in mark-up due to the extent of redrafting):

  "In applying ISA 315 (Revised 2019), the auditor shall consider whether there are matters that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors, based on the auditor's understanding of:

  (i) The entity's organizational structure and ownership, governance, objectives and strategy, and geographic dispersion
  (ii)……"

  Part (b) of the requirement could simply be moved to form part of the above numbered list.

- We also suggest that paragraph 33(a)(i) should incorporate understanding how the extent to which the entity's business model integrates the use of IT may create susceptibility to internal or external fraudulent activity.

- There is a lack of clarity about the interrelationship of ISA 315 (Revised 2019) paragraph 21(a) and proposed paragraph 34(a). Similar to the comments above, ISA 315 already requires the auditor to obtain an understanding of how management's oversight responsibilities are carried out, including the entity's culture and management's commitment to integrity and ethical values. The requirement is therefore not drafted in a clearly incremental manner. Although a longer condition, we suggest an appropriate construct as follows:

  "In applying ISA 315 (Revised 2019) the auditor shall:

  (a) When ~~Obtaining an~~ understanding the set of controls, processes and structures that address ~~of~~ how management's oversight responsibilities are carried out with respect to the~~, such as the~~ entity's culture and management's commitment to integrity and ethical values, understand ~~including~~ how management communicates with its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud."

- With respect to paragraph 37 regarding the understanding of how journal entries are initiated, processed, recorded, and corrected as necessary, we suggest clarifying in application material that the scope of the underlying linked requirement in ISA 315 (Revised 2019) is limited to understanding the entity's information processing activities related to significant classes of transactions, account balances, and disclosures.

- We note that the language used in paragraph 43, to describe designing and performing procedures in a manner that is not biased, does not align with similar concepts in ISA 315

(Revised 2019) or as proposed in paragraph 8 of ED-500. It is unclear if this is a deliberate change. However, as the foundational concept will exist primarily in ISA 500, we would expect ISA 240 (Revised) to adopt language consistent with the foundational standard.

Fraud or Suspected Fraud

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)

(See ED, paragraphs 55–59 and 66–69)

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

Detailed comments (if any):

We agree in principle that ED-240 establishes robust work effort requirements addressing circumstances when instances of fraud or suspected fraud are identified in the audit. The proposed new requirements are useful additions to the standard. They appropriately reinforce the overall responsibility of management for taking action to identify and respond to fraud while recognising the auditor needs to also evaluate the appropriateness and further implications, if any, of those actions. These changes help address a perceived gap in ISA 240 and help to ensure the auditor “closes the loop” on identified or suspected fraud matters.

Furthermore, we support the proposed requirement for the engagement partner to exercise professional judgment in determining what further actions are appropriate in the circumstances, based on their understanding of the fraud or suspected fraud and how management has responded. This approach ensures appropriate scalability, allowing for flexibility in audits of entities of varying size and complexity, recognising that the response to individual instances of fraud or suspected fraud may require unique actions specific to the particular audit. Importantly, the reference to identified or suspected fraud in paragraph 55 includes both matters that are directly identified by the auditor when performing audit procedures, as well as matters that the auditor has become aware of through inquiries of management, those charged with governance, or others (which includes matters that may have been captured and addressed by an entity’s whistleblower program or other reporting mechanism). The auditor’s understanding of these matters appropriately includes whether and, if so, how management and those charged with governance have responded to the matter (including any process to investigate and remediate the matter). Management’s conclusions about the potential effects on the financial statements may also inform the auditor in determining the nature and extent of further work necessary to obtain evidence about whether the financial statements are materially misstated due to fraud.

Our primary observation on this set of requirements relates to paragraph 55(d). The auditor is required to *“determine whether control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud.”* The auditor may not have performed testing of the operating effectiveness of internal controls as part of the audit. Therefore, while we agree that the auditor’s inquiries may lead to a suspicion, possibly even a strong one, that one or more controls may not have been implemented or have operated effectively, we question whether the auditor will have a sufficient evidential basis for making a “determination” in accordance with this requirement. While we support the sentiment of the requirement, we ask the Board to reconsider how it is articulated and to reflect on the varying nature of work that an auditor may have undertaken when responding to assessed risks of misstatement in accordance with ISA 330.

We also have a concern that some of the application material in support of the requirements can be interpreted as inconsistent with the principle described in paragraph 6 that the auditor is only concerned with fraud or suspected fraud that could give rise to material misstatement of the financial statements. For example, we suggest the following amendments:

- Paragraph A7, example 2: referring to:

  "…..possible recurring misappropriation of high-value products from the entity's warehouse"

- Paragraph A147, example 1: it is unclear as to the relevance of referring *to "an employee who does not have a significant role or authority in the entity"* when referring to misappropriation of assets. This could be implied as suggesting that this is unlikely to be a situation that may give rise to material misstatement of the financial statements. We suggest altering the example, to align with the suggestion on paragraph A7 and instead refer to:

  "….evidence that indicated assets may have been misappropriated by ~~an employee who does not have a significant role or authority in the entity~~ the warehouse manager by overriding relevant controls."

  Certain other facts in the example would need to be adjusted to reflect this change.

- Paragraph A148, example 1: we suggest making clear that the allegations were such that this could result in a material misstatement of the financial statements due to fraud as, given the other facts explained in the example, the auditor would not be expected to follow up all spurious claims made against an entity by disgruntled employees. We recommend amending to state:

  "New, persuasive, allegations of fraud were made….". We also suggest not referring to prior allegations as this seems technically not relevant to the situation, and instead just stating: *"~~Since t~~ The entity's policies and procedures were followed and ~~prior~~ the allegations ~~of a similar nature had been investigated and~~ were determined to be without merit. Therefore, management…"*

We also agree in principle with the statement in paragraph 7 that suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit. However, we note that there is a lack of consistency in the standard regarding the use of the phrase "suspected fraud" and "suspected fraud, including allegations of fraud." Given the clear statement in paragraph 7, the latter phrase is redundant and may cause confusion. We recommend the shorter phrase is used throughout the standard to avoid any ambiguity or misinterpretation.

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: **Agree, with comments below**

Detailed comments (if any):

We agree that the proposals in ED-240 may enhance transparency in the auditor's report about matters related to fraud, when applied effectively by the auditor. More specifically, in principle, we consider the proposal to use the Key Audit Matters (KAMs) section of the auditor's report to be a reasonable and pragmatic solution to calls for the IAASB to increase transparency about fraud-related matters rather than a separate section of the auditor's report. In our view, a separate section can give rise to extensive, boilerplate, high-level descriptions about the approach to fraud in an audit that are neither entity specific nor useful to users of the financial statements. For example, experience in European jurisdictions, where the auditor is required to describe the extent to which the audit is capable of detecting fraud, has been mixed, and in most cases, this has often resulted in boilerplate language that adds little value. We note that under extant ISA 240, when significant fraud-related matters meet the criteria set out in ISA 701, these would be expected to be reported as KAMs today. Therefore, this change simply codifies and reinforces those judgements.

However, the proposed approach to using the KAM section is not without potential unintended consequences that should be carefully considered. For example, we urge the IAASB to consider whether the standard should make clear that the presumed risks of fraud (management override of controls and revenue recognition) would only be expected to be reported when there are engagement specific circumstances that can be described. As currently drafted, the statement in paragraph A173 that *"revenue recognition or management override of controls may be regularly determined as key audit matters related to fraud"* seems to act as positive encouragement to do so in all cases. It would be unhelpful to repeat experience in jurisdictions, such as the UK and Netherlands, where boilerplate KAMs were reported on these matters, with users subsequently indicating they were of no value. Many firms in those jurisdictions therefore removed these "presumed KAMs". While the intent of paragraph A173 was to encourage auditors to make such presumed KAMs more entity specific, we instead suggest the IAASB acknowledge that the auditor should apply judgement as to whether a meaningful KAM can be described related to these matters and therefore warrant inclusion.

We are also concerned that the requirement in paragraph 64 may lead to potential misunderstanding of the auditor's report in cases when, based on the facts and circumstances of the audit, the auditor's work in relation to fraud did not rise to the level of a KAM or the auditor determines that a KAM should not be communicated (for reasons as described in ISA 701). For example, the statement that there are no KAMs related to fraud may be read as a guarantee that contradicts the inherent limitations of an audit as described in paragraphs 10-11 of the standard. Furthermore, in the event that an auditor considers that one or more boilerplate KAMs, as described above, should not be included, the requirement to make this statement may encourage their inclusion to avoid the need to make the statement, due to the perceived risks that it will be misinterpreted. Including a KAM that, in the auditor's judgment, would not otherwise be a matter of most significance in the audit of the financial statements, risks diluting the important signal that the other entity-specific KAMs are intended to send. Accordingly, we recommend this requirement be deleted. The consequential amendment to paragraph 11 of ISA 701 to amend the section title within the report to be "Key Audit Matters including Matters Related to Fraud" would also need to be made a conditional requirement such that, in the circumstances that the auditor determines there are no KAMs related to fraud to report, the "including …." element is not included in the section title.

We agree with the Board's rationale, described in paragraph 65 of the EM, not to mandate reporting of control deficiencies as Key Audit Matters. Although there may be a correlation between identification of fraud and the effective operation of controls, that may not universally be the case. Therefore, it is not within the scope of the project to revise ISA 240 to propose new reporting on deficiencies in internal controls.

Reporting on control deficiencies only in relation to fraud would also give rise to questions about why control deficiencies arising from other circumstances are not addressed. However, as the IAASB notes, the purpose of an audit of financial statements under the ISAs is not to test an entity's internal controls to identify significant deficiencies or to express an opinion on an entity's internal control over financial reporting, as well as the other reasons described in the EM. Therefore, we agree that the identification of significant deficiencies in internal control are best reflected as a factor in determining which matters related to fraud to communicate and how to describe those matters in the auditor's report.

Illustrative examples

When a KAM is reported that has a fraud element, auditors will typically describe the fraud aspect as part of a broader description of the KAM. We believe it would be beneficial for the IAASB to illustrate how KAMs may be described incorporating the auditor's consideration of fraud risk and how that was addressed in responding to the overall matter.

Post-implementation review

If the IAASB moves forward with the approach proposed in relation to transparency, it will be important for the Board to be clear in its communications about how the requirements are intended to be interpreted and applied. We would consider this an extension of the IAASB's work in relation to its auditor reporting post-implementation review, and it would likely be helpful to also consider other changes being proposed to the auditor's report (e.g., going concern). The purpose of these efforts would be for the IAASB to determine whether its objectives in relation to transparency are achieved or whether alternative or complementary approaches may be necessary.

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 refer to our recent response on the IAASB's exposure draft of proposed narrow scope amendments to the ISQMs, ISAs and ISRE 2400 (Revised) on extending the extant differential requirements for listed entities, including communicating Key Audit Matters (KAMs), to apply to audits of all PIEs.

Until there is clarity on the intended scope and application of the intended common IESBA and IAASB definition of a PIE, we do not support extending the mandatory scope of ISA 701 beyond its application to audits of complete sets of general purpose financial statements of listed entities, or when the auditor is required by law or regulation to communicate KAMs in the auditor's report. ISA 701 already allows for the auditor to otherwise decide to communicate KAMs in the auditor's report for audits of other entities. Therefore, the auditor is not precluded from choosing to include KAMs in the auditor's report on the audit of a (jurisdictionally determined) PIE, including (as described in our response to question 5) significant matters related to fraud. As such, ISA 240 should remain aligned with ISA 701 at this time.

Additionally, when the IAASB reconsiders this question in due course, we note that certain jurisdictions, following their local due process, have already determined that certain entities falling within the scope of the PIE definition (e.g., investment funds) should not be subject to KAM reporting requirements. This decision arises from valid reasons, indicating a need for careful consideration before extending transparency requirements to all PIEs.

Furthermore, there is a potential risk of less meaningful KAMs becoming prevalent if the differential requirements are extended to all PIEs, rather than solely to publicly traded entities. Certain classes of entity that may fall within the broad categories set out in the PIE definition may share common risks, leading to standardized or boilerplate KAMs, which could undermine their purpose and further increase the stakeholders' expectation gap.

Given these complexities, in addition to the necessary resolution of the scope and application of the proposed PIE definition, we encourage the IAASB to conduct further outreach activities to evaluate the merits of extending KAM reporting beyond listed (publicly traded) entities, including obtaining the perspectives of national standard setters regarding the needs of users of the auditor's report in their respective jurisdictions.

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):

While we understand the arguments that can be put forward in favour of including a specific stand-back requirement in ED-240, such as whether, collectively, the quality of management's responses to inquiries or quality of evidence gives rise to potential further fraud risk indicators, on balance, we do not consider these to be sufficiently persuasive. We, therefore, agree with the IAASB's decision. As described in our response to question 2, we believe that the proposed changes to the standard, including the revisions in respect of risk identification and assessment, engagement team discussions, and consideration of the need for specialized skills, may help reinforce behaviour underpinning the exercise of professional scepticism and promote a more active consideration of fraud risk factors by the auditor and how to respond to assessed risks.

Furthermore, risk assessment is an iterative process, and ISA 315 (Revised) 2019 already includes two stand-back requirements for the auditor to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement, and to revise the identification or assessments of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessments of those risks.

In addition to the enhancements to the auditor's responsibilities through the changes proposed in the ED, and the existing requirements of ISA 315 (Revised 2019), in our view the following existing requirements provide sufficient rigour in requiring the auditor to reflect on whether they have "done enough" and have a basis for their opinion:

- ISA 330 (paragraph 25) – evaluating before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate;
- ISA 330 (paragraph 26) – to evaluate whether sufficient appropriate evidence has been obtained in response to assessed risks of material misstatement, which include those related to fraud; and
- ISA 700 (Revised) (paragraph 11) – concluding whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material. misstatement, whether due to fraud or error.

Paragraph 21 of ED-240 also includes an overarching requirement for the auditor to remain alert for information that is indicative of fraud or suspected fraud which already reminds the auditor to be alert and reflect on information they encounter during the audit and whether it may be indicative of fraud or suspected fraud.

Paragraph 57 of ED-240 further requires the auditor, for any identified misstatement due to fraud, to determine the implications of the misstatement in relation to other aspects of the audit, and paragraph A152 further describes the impact on the overall audit strategy with reference to the integrity of management.

If an auditor appropriately applies all these requirements across the ISAs there is no need for any further stand-back in ISA 240 (Revised).

Not including a separate stand-back requirement is also responsive to feedback from stakeholders that are concerned about a potential proliferation of stand-back requirements each and every time an ISA is revised. There may, however, be opportunity in the application material to draw attention to how the auditor's judgements related to fraud are considered in these existing requirements in 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: **Agree, with comments below**

Detailed comments (if any):

We consider the scalability considerations included in ED-240 to be broadly appropriate. Conditionality for certain requirements (i.e., limiting the relevance and applicability of certain requirements), where relevant, is appropriate, and the nature of this standard means that many requirements should be inherently scalable to the engagement circumstances.

Notwithstanding our overall support, please see our response to question 4 regarding the application material supporting the requirements in paragraphs 55-59 (fraud or suspected fraud), which may imply a work effort that is not proportionate or raise questions about scalability.

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 701[8]) 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):

Subject to our comments in response to question 2 (ISA 200) and question 3 (ISA 315 and ISA 500), we broadly agree that ED-240 has appropriate linkages to other ISAs and promotes application of the revised standard in the context of the other ISAs in an integrated manner.

Regarding the linkages to ISA 220 (Revised), specifically in the context of the involvement of forensic specialists, we consider it important that the involvement of forensic specialists is clearly understood in the context of the scope of an audit. The auditor's responsibilities may be further misunderstood if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work, which is not the intention of ED-240. We consider the proposed requirements to be appropriate (i.e., not mandating the involvement of forensic specialists but requiring an engagement partner determination of whether the engagement resources are appropriate). We furthermore consider the illustrative examples in the application material to be helpful and appropriate and, in our view, they highlight the important fact that there may be a spectrum of involvement of (forensic) specialists and that the decision whether or not to involve them is dependent on the engagement circumstances.

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*

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 recommend that paragraph 32 of ED-240 be relocated for improved alignment within the standard. This paragraph focuses on evaluating evidence derived from risk assessment procedures to identify potential fraud risk factors. Paragraphs 33 to 39 represent key risk assessment procedures most likely to yield indicators of such fraud risk factors. As such, in order to ensure a logical flow from identification to evaluation of fraud risk factors, we suggest relocating paragraph 32 after paragraph 39.

In paragraph A2 and A157, we recommend including the word "often" before "involves" when describing fraud, as it could be read as implying all three elements of the fraud triangle must be present, when this may not be the case, especially in relation to third-party fraud.

Paragraph A11, while helpful in principle, could lead to an expectation that the auditor is required to determine why a fraud was perpetrated (e.g., form a view on management's intentions). This would be inconsistent with paragraph 6 that the auditor does not make legal determinations of whether fraud has actually occurred, which includes the concept of intent. We suggest the IAASB reframe this in the context of the auditor's understanding of the matter, when applicable, obtained in accordance with paragraph 55.

In paragraph A28, we believe the first step an auditor would take would be to make inquiries of relevant management as part of additional audit procedures to investigate concerns about the authenticity of records or documents. There may be a valid reason that negates the auditor's concern. We suggest this is added as a logical first step.

Paragraphs A31 and A32 seem redundant and lacking relevance to the topic of professional scepticism in the context of fraud. Matters concerning compliance with ethical requirements are more appropriately addressed in ISA 220 (Revised) and appear disconnected in these paragraphs from the focus on professional scepticism in relation to fraud. Additionally, the guidance in paragraph A32 lacks a clear linkage to the exercise of professional scepticism, raising questions about its relevance and applicability here.

We suggest adding to the list in paragraph A35 skills in evaluating the matters required by paragraph 55 in relation to the appropriateness of the entity's process to investigated matters as well as remediation measures.

Paragraph A78 could be read as implying that the auditor has to form a view on the sufficiency of those charged with governance's ability to objectively assess the actions of management. We recommend the IAASB be clearer about the linkage to ISA 260 and avoid suggesting that the auditor is evaluating the effectiveness of those charged with governance as part of the financial statement audit.

In paragraph A157 we suggest referring to the fact that "an instance of fraud may not be an isolated occurrence" rather than suggesting that it is unlikely to be. That may convey that when a fraud is encountered there is always likely to be multiple frauds being perpetrated. Unless the IAASB has evidence of that fact, we think this should be more balanced.

Conforming and consequential amendments

ISA 450, paragraph A1 – The footnote contains a reference to examples of misstatements provided by paragraphs A2-A6 of ISA 240 (Revised). Paragraph A2 describes incentives and opportunities, rather than examples of misstatements. We suggest the reference should be to A3-A6.

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):

Acknowledging the overlapping changes to the auditor's report being proposed in the IAASB's Going Concern and the Listed Entity and PIE – Track 2 projects, we agree in principle with the proposal to align the effective dates of all three projects.

Assuming that the approval of each project occurs between December 2024 and March 2025, we support an effective date for periods beginning on or after 15 December 2026. This timeline is sufficient for jurisdictions to implement the suite of changes resulting from these projects. By synchronizing the updates to ISA 700 (Revised), this will reduce quality risks resulting from piecemeal updates over multiple reporting periods (when also accounting for the revisions necessary under the Listed Entity and PIE – Track 1 revisions that apply for December 2025 year ends).