

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)	Fraud Advisory Panel
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Brendan Weekes
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	brendan.weekes@evelyn.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.	Europe
	If "Other," please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Member body and other professional organization
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	<p>The Fraud Advisory Panel is the independent voice of the counter fraud community in the UK.</p> <p>As a registered charity and membership organisation we collaboratively deliver events and campaigns that promote fraud prevention through our vision and mission.</p> <p>We are funded through membership subscription, event registration fees, and an annual grant received from ICAEW. We also receive ad hoc sponsorship and donations of time, expertise and venues and event support.</p> <p>The comments below are made by the Fraud Advisory Panel, on behalf of its members and have been compiled by a working group of staff from small and medium sized audit practices, forensic accountants and solicitors working predominantly in the UK. The comments below are written with small, medium and large audit assignments in mind.</p>

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: [Disagree, with comments below](#)

Detailed comments (if any):

We agree that the ED sets out the auditors' responsibilities relating to fraud in an audit of financial statements.

However, in respect of the responsibilities and throughout the standard, we consider it necessary to expand the definitions and explanations of fraud in ED paragraphs 6 and 7, and the definition at ED paragraph 18(a) to distinguish between:

- (i) The type of fraud - fraud caused by misappropriation, fraud caused by misrepresentation or fraud caused by corruption; and
- (ii) The perpetrators of fraud - fraud perpetrated by staff or third parties, and fraud perpetrated by management or those charged with governance.

While we consider that the above distinctions are helpful in the body of the standard, we also consider that it would be helpful to set out common fraud schemes in an appendix.

Types of fraud

We consider it necessary to clearly set out how misstatement of financial statements can occur in the financial statements due to fraud:

- The fraudulent misappropriation of an entity's assets has not been detected.
- The fraudulent misstatement of underlying accounting records or financial statements has not been detected.
- An underlying contract has been won through fraudulent corruption, and the underlying transactions may be invalidated, incorrectly classified or the potential penalties associated with the criminal activity has not been provided for.

In respect of misappropriation, there is an apparent inverse correlation between the value of assets misappropriated and the likelihood that the misappropriation will not be detected – i.e. how many widgets would need to be stolen to have a material impact on the financial statements, and how likely that a theft of that size would go unnoticed? Furthermore, we note that management and those charged with governance are more likely to care about the theft of an entity's assets and put in controls and procedures to detect and mitigate the harm from misappropriation.

In respect of misstatements, we note that several recent high-profile corporate scandals have arisen due financial statement fraud, including Carillion, CHS and Patisserie Valerie. Several of the UK's SFO's deferred prosecution agreements are based on misstatements by corporates (G4S, Serco, Tesco) are based, in part, on misrepresentations made by the entities. Some of the largest corporate scandals (e.g. Lehman Brothers, Madoff, Satyam) can also be attributed – at least in part - to misstatements. We note that fraud by misstatements tends to be committed by those with the ability to circumvent or override and entity's controls and procedures and by those in a position to manipulate the information provided to auditors.

A definition of fraud by misstatement should also include definitions of ESG related fraud, such as the VW carbon emissions scandal.

We note that fraud by corruption is also referenced in ISA 250. However, for completeness, referencing this type of fraud in ISA 240 should also be helpful.

In our experience, in particular with smaller audit practices, auditors tend to focus disproportionately on fraud by misappropriation, rather than fraud by misstatements. In our view the distinction of the types of frauds in the definition of fraud and in the body of the standard, would assist in focusing the auditor on matters more likely to result in material errors in the financial statements.

Perpetrators of fraud

In general, management and those charged with governance will implement controls and procedures to detect and prevent significant fraud and fraud attempts by staff and third parties, and that the effectiveness of these controls and procedures can be tested by the auditors, with the support of management and those charged with governance.

However, where fraud is perpetrated by management or those charged with governance, it is more likely that these individuals can override controls and that they know the entities' systems and controls sufficiently that their activities may remain undetected by the entity.

It is more likely that frauds perpetrated by management and those charged with governance will be material (compared to those perpetrated by staff and third parties).

Accordingly, it is these types of fraud which should be considered as a priority by auditors in adhering to this revised standard.

Sources

We note the survey results in the 2024 ACFE Report to the Nations which show that, of the fraud investigations sampled:

- 89% of matters included asset misappropriation with a median loss of \$120,000
- 5% of matters included financial statement fraud with a median loss of \$766,000.

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: [Disagree, with comments below](#)

Detailed comments (if any):

In respect of ED paragraph 29, the further explanations under sub-paragraphs (a) and (b) are helpful. However, we consider that the explanations should be expanded by application note to include examples of fraud schemes which auditors should consider.

We note from EM paragraph 23 that the ED removes the requirement to have discussions setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.

We further note ED paragraph 29 (a) (ii) (b) still requires an exchange of ideas on “How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting” and the ED paragraph A51 suggests that the adoption of a “what if” scenario may be a useful approach to facilitate the exchange of ideas.

In our view this initial discussion is crucial to help establish an appropriate mindset in the broader audit team that “fraud-related” risks are very different from “error-related” risks, not least because of intentional concealment and obfuscation during inquiries. It is also essential for ensuring the team, including its more junior members, are sensitive to the challenges of auditing fraud-risks that may involve senior management and/or those charged with governance.

We suggest that this section should instruct the auditor, purely for planning purposes, to specifically reflect on a situation in which management and/or those charged with governance were motivated to commit fraud, and then to reflect on what they might then do and how they would conceal that fraud.

We consider that the removal of the requirement to have discussions setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity may be perceived to soften the language and undermine the thought exercise proposed. As noted above, the types of fraud that are most likely to be undetected and material to an entities financial statements are the frauds perpetrated by dishonest management and those charged with governance, acting without integrity.

While we note that ED Paragraph 22, we consider that reference to consulting subject matter (fraud) experts or forensic accountants in the body of the standard (rather than in the application notes) is necessary at ED paragraph 29.

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: No response

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):

As noted above, we consider it necessary to expand the definitions and explanations of fraud, including distinguishing between fraud perpetrated by staff and third parties from fraud perpetrated by management and those charged with governance.

ED paragraphs 55 to 59 do not sufficiently provide guidance to auditors in relation to fraud perpetrated by management and those charged with governance. Nor does this section sufficiently highlight the risk of tipping off or committing money laundering offences (in the UK).

Similarly, ED paragraphs 66 to 68 should be expanded to take into account where management or those charged with governance have perpetrated the fraud, and there is no one above these perpetrators to communicate the fraud to.

While we note that ED Paragraph 22, we consider that reference to consulting subject matter (fraud) experts or forensic accountants in the body of the standard (rather than in the application notes) is necessary at ED paragraph 55 to 59 to ensure that those evaluating identified fraud or suspected fraud, and the investigation carried out by the entity have the appropriate skills and expertise to carry out that evaluation.

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: [No response](#)

Detailed comments (if any):

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: No response

Detailed comments (if any):

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: Disagree, with comments below

Detailed comments (if any):

We consider it necessary for the auditor to specifically reflect on a situation in which management and/or those charged with governance were motivated to commit fraud, and then to reflect on what they might then do and how they would conceal that fraud, and in that context to evaluate audit evidence obtained and errors identified.

This will reinforce the auditors' need to consider possible frauds which may not be material by amount but may still be material in qualitative terms. Examples of such frauds may include the manipulation of key performance indicators to meet financing covenants, where failing to meet those covenants may result in breach of financing arrangements requiring a reclassification of long-term debt to short-term creditors and impacting the assessment of the entity's ability to continue as a going concern.

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: No response

Detailed comments (if any):

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: [No response](#)

Detailed comments (if any):

Other Matters

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

Overall response: [No response](#)

Detailed comments (if any):

Translations

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

Overall response: [No response](#)

Detailed comments (if any):

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

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*

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: **No response**

Detailed comments (if any):