

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)	Asociacion Interamericana de Contabilidad (AIC)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Jorge Sandoval La Serna, President Ángel Devaca Pavón, Luis Antonio Godoy and Juan Carlos Ovalles, Response to request for comments issued
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Laureana Paredes
E-mail address(es) of contact(s)	oficinaaicbolivia@gmail.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.	South America
	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).	

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): Yes, we are persuaded that Exposure Draft (ED) 240, entitled "Fraud in an Audit of Financial Statements" of the International Auditing and Assurance Standards Board (IAASB); proposes clarifications and enhancements to current standards related to the auditor's responsibility for detecting fraud during the audit of financial statements; ED- 240 seeks to strengthen and clarify the auditor's responsibilities in relation to fraud, including both material and immaterial fraud and fraud committed by third parties. Highlighting the importance of a proactive and risk-aware approach to fraud in the audit of financial statements, as provided in Section 1-C - Auditor's Responsibilities by addressing the following points in detail: Auditor's Responsibilities in Relation to Fraud, Auditor's Responsibilities in Relation to Non-Material Fraud and Suspected Non-Material Fraud.

Some key points related to the auditor's responsibilities for fraud, including non-material fraud and fraud by third parties:

ED-240 reaffirms the auditor's responsibility to identify and assess the risks of material fraud in the financial statements and to design and implement responses to those risks. Although the auditor is not responsible for preventing fraud, the auditor does have a responsibility to perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Although the auditor's primary focus is on material fraud, ED-240 recognizes that the discovery of non-material fraud may be indicative of deficiencies in internal control or a poor control environment. This could influence the auditor's assessment of the risks of material fraud and the auditor's response to those risks.

ED-240 discusses the need to consider the risk of fraud committed by third parties (not just employees or management). This includes consideration of external frauds that could affect financial reporting, such as supplier scams or manipulation of transactions by third parties.

The auditor should evaluate whether the responses designed and implemented are adequate to address the identified risks of material fraud, and this evaluation should include a consideration of how fraud could occur and whether it could have a material effect on the financial statements.

The auditor has a responsibility to communicate fraud- related matters to management and those charged with governance, especially those frauds that could have a significant effect on the organization's management or control, even if it is immaterial.

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 consider that it does reinforce this and we agree with not including requirements that are already contemplated in other auditing standards.

Yes, ED-240 reinforces the exercise of professional skepticism about fraud-related issues in a financial statement audit. This proposed IAASB document emphasizes the need for auditors to maintain a high level of professional skepticism throughout the audit process. ED- 240 seeks to ensure that auditors not only comply with standard procedures, but also actively question the information and explanations provided, which is key to detecting and responding appropriately to financial statement fraud.

The reinforcement focuses on the following central points, which developed sufficiently in the document: Expanded definition of professional skepticism, responses to fraud risk, continuous assessment and management independence.

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 consider that ED 240 is adequately based on the requirements of ISA 315 while maintaining a balance with its provisions and with other ISAs, aimed at carrying out the process of identifying and assessing risks in a sound manner in an audit of financial statements.

Yes, ED-240 appropriately builds on the foundational requirements of ISA 315 (revised 2019) and other International Standards on Auditing (ISAs) to support a more robust identification and assessment of risks related to fraud in a financial statement audit. In doing so, it expands and specifies the need for a risk-based approach that is central to ISA 315, emphasizing the identification and assessment of material fraud risks. ED-240 introduces detailed guidance and clarifies expectations on how auditors should apply professional skepticism and consider both intentional and unintentional misstatements. In addition, it strengthens aspects of risk assessment by requiring auditors to consider how and why fraud might occur, which improves the quality and depth of their approach to fraud detection.

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)

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

(See ED, paragraphs 55–59 and 66–69)

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

Detailed comments (if any): We believe that the requirements established when cases of fraud or suspected identified fraud in the audit are Adequate. We found an adequate amount of material application in the draft.

Yes, ED-240 establishes robust work effort requirements and provides detailed application material to address circumstances when instances of fraud or suspected identified fraud in the audit. The document reinforces the need for auditors to take concrete actions and adequately document their findings and responses to the detection of indications of fraud. It states that auditors should adjust their audit procedures and consider the implication of fraud findings on the rest of the audit, ensuring that responses are commensurate with the risks identified. In addition, ED- 240 guides auditors on how to communicate effectively fraud issues to management and those charged with corporate governance, highlighting the importance of transparency and collaboration to mitigate the effects of detected fraud. It also provides guidance on reconsidering the risk assessment and the need to review related areas that may be affected.

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): Yes, ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report. It establishes clearer requirements for auditors to communicate key fraud-related matters in their report, including the nature and extent of specific audit procedures applied to address identified fraud risks. In addition, it encourages discussion of fraud-related findings and how significant have influenced of the auditor's opinion. This approach promotes greater transparency and provides users of the financial statements with a deeper understanding of the areas of concern and the auditor's performance in addressing the risk of fraud, which contributes to reliance on the auditor's report and the audited financial statements.

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

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

(See ED, paragraphs 61–64)

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

Detailed comments (if any): In our view, the transparency in the auditor's report about matters related to fraud introduced in ED-240 should be apply to audits of financial statements of entities other than listed entities, including Public Interest Entities (PIEs). This expanded application would promote confidence in the financial statements of these entities, which often have a significant impact on a broad group of stakeholders, including investors, employees and regulators.

The inclusion of details on how addressed fraud in audits provides these stakeholders with a stronger basis for assessing the integrity and reliability of the financial information presented. In addition, it could help prevent future fraud by making entities more aware of the potential consequences of malpractice and the likelihood of detection.

Moreover, this transparency could serve to align expectations more closely between auditors and users of audited reports, thereby mitigating the excessive expectations that often exist in terms of the perception of the auditor's role with respect to fraud. This approach not only enhances audit quality and credibility, but also strengthens accountability and corporate governance in all industries, regardless of whether a company is publicly traded or not. Therefore, broadening the application of these provisions of ED-240 would be beneficial to improving transparency and confidence in the broader financial arena.

Considering a Separate Stand-back Requirement in ED-240

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

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

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

Detailed comments (if any): We agree do not to include a requirement of this nature in ED- 240, since - as mentioned in paragraph 108 of the Explanatory Memorandum - it is already covered in other auditing standards and would be redundant.

Yes, we agree with the IAASB's decision not to include a separate reserve requirement in ED-240. This aligned decision with the general philosophy of the International Standards on Auditing (ISAs), which promotes an approach based on professional judgment and risk assessment, rather than prescribing overly detailed and specific procedures.

The absence of a specific qualification requirement in ED- 240 underscores the importance of auditors exercising sound professional judgment in evaluating the totality of audit evidence, both corroborative and contradictory. This is essential to reach an informed conclusion as to whether the audit evidence obtained is sufficient and appropriate to address the assessed risks of material misstatement due to fraud.

A more prescriptive approach could limit the auditor's ability to adapt his or her procedures and responses to the specific context and circumstances of each audit, which is vital in modern audit practice, where flexibility and adaptability are key to effectively addressing the variety and complexity of situations that may arise.

In addition, by not imposing a separate reserve requirement, ED-240 encourages a continuous evaluation mentality throughout the audit process. This reinforces the need for auditors to maintain active professional skepticism and constant critical evaluation, which are essential elements in identifying and responding to potential fraud.

Finally, this decision helps to maintain the focus of the ISAs on the quality and depth of professional judgment, rather than on mere compliance with specific procedures. This is crucial for auditing to be truly effective in detecting and preventing fraud, ensuring that auditors remain focused on the fundamental principles of their profession and not just on verifying compliance with formal requirements.

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): Yes, we believe that the IAASB has appropriately integrated scalability considerations into ED-240. This designed draft to be applicable to entities of varying sizes and complexities, which is critical given that fraud can affect any entity, regardless of size or complexity. ED-240 provides a framework that tailored by auditors according to the specific circumstances of the audited entity, allowing practices and procedures to be adjusted to reflect both the scale and organizational structure of the entity. This ensures that auditors can apply the principles of ED-240 effectively in a wide variety of contexts, while maintaining the effectiveness and relevance of audits in detecting and responding to fraud.

Linkages to Other ISAs

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

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

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

Detailed comments (if any): Yes, ED-240 establishes appropriate linkages with other International Standards on Auditing (ISAs) to promote the application of ISAs in an integrated and cohesive manner. The document explicitly references and aligns with several key ISAs, ensuring that auditors can interpret and apply the requirements consistently in the context of the audit of financial statements.

ISA 200 General Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing. ED-240 reaffirms the principles of ISA 200 on obtaining reasonable assurance and exercising professional skepticism.

ISA 220 (R) Quality Control for an Audit of Financial Statements. Links to ED-240 in terms of ensuring the quality and adequacy of procedures in response to fraud.

ISA 315 (R in 2019) Identifying and Assessing the Risks of Material Misrepresentation. ED-240 uses this standard as the basis for fraud risk assessment, providing guidance on how to identify and respond to specific fraud risks.

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*

ISA 330 Auditor's Responses to Assessed Risks. ED-240 details how responses to fraud risks should be designed and executed based on the principles of ISA 330.

ISA 500 Audit Evidence. ED-240 stresses the importance of obtaining adequate and appropriate evidence in response to fraud risks, in line with ISA 500.

ISA 520 Analytical Procedures. Reinforces the application of analytical procedures as a tool to detect possible fraud, relating it to the practices established in ISA 520.

ISA 540 (R) Auditing Accounting Estimates and Related Disclosures. ED-240 relates to this standard in the context of accounting estimates, areas often susceptible to fraud.

ISA 701 Communication of Key Audit Matters in the Independent Auditor's Report. ED-240 supports transparency and effective communication about fraud matters, in line with ISA 701.

These linkages ensure that ED-240 is not only consistent with other existing standards, but also promotes an integrated and efficient application of all ISAs, effectively addressing fraud across multiple aspects of the audit.

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): An additional consideration that may be relevant to ED-240 is the need to provide additional guidance on how auditors should address the specific challenges presented by emerging technologies, such as artificial intelligence and big data analytics, in the context of fraud. As these technologies become more integrated into business operations and audit processes, new types of fraud risks could emerge or existing risks could be altered.

We believe the following specific aspects to consider could include:

Technological Risk Assessment. This could include additional requirements or guidance on how to assess the risks associated with technologically advanced systems that process financial transactions and data. This assessment should consider both the vulnerabilities inherent in these technologies and those related to their implementation and use in specific contexts.

Training and competencies. It may be useful to address the need for auditors to develop and maintain specific competencies to deal with emerging technologies. This would include understanding how these technologies can be manipulated to commit fraud.

Use of analytical tools. While ED encourages the use of analytical procedures, providing detailed guidance on how to apply advanced data analysis techniques to identify unusual patterns or patterns indicative of fraud could be beneficial and would be especially relevant in environments where the volume and complexity of data exceeds traditional analytical capabilities.

We understand that the points specifically cited above could further enhance the effectiveness of ED-240 by ensuring that auditors are equipped to meet current and future challenges in fraud detection in an increasingly technological financial world, otherwise, in short order, a revision of the ISA 240 reviewed here would again be necessary.

Translations

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

Overall response: [See comments on translation below](#)

Detailed comments (if any): In general, in Latin America, it is very difficult to obtain the rich documents issued by IAASB in Spanish, and the translation of the documents issued in English has even more difficulties. That is why AIC has been making great efforts for years to maintain an official translation committee with the consent of IFAC, but also in this effort it finds so many difficulties that require prompt and satisfactory attention, a translation accepted by IFAC will greatly strengthen the adoption of the standards registered by this entity. A palpable example of the difficulties we encounter is the precarious translation into Spanish of both Exposure- Draft-Proposed-ISA-240-Revised-Fraud and Public-Interest-Table-Exposure-Draft-ISA-204-Mapping-Key- Changes for our requested comments.

Effective Date

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

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

(See ED, paragraph 16)

Overall response: [See comments on effective date below](#)

Detailed comments (if any): Yes, we believe it is relevant to coordinate effective dates with the Going Concern, and Listed Entity projects and the PIE - Track 2 project. We agree with the IAASB that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after the approval of the final standard and we believe that such a period will be sufficient to achieve effective implementation of the ISA, proposals that we fully support.

Although, perhaps it could be 24-month period, considering the impact this revision of ISAs would have on the auditor's report and its interactions with other standards.