

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)	International Federation of Accountants (IFAC)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Christopher Arnold Harpal Singh
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
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Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Global
	If "Other," please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	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).	IFAC is the global voice for the accountancy profession. IFAC serves the public interest through advocacy, development, and support for our member organizations & the millions of professional accountants around the world who are crucial to our global economy.

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:

This response has been prepared on behalf of the global accountancy profession by IFAC and includes input from several of IFAC's volunteer groups including the [Small and Medium Practices Advisory Group](#) (SMPAG) and International Standards Community of Practice. IFAC is the global organization for the accountancy profession. IFAC's membership comprises more than 180 professional accountancy organizations in over 135 jurisdictions, representing more than 3 million professional accountants in public practice, industry, government and education.

IFAC supports the IAASB’s focus on addressing the issues and challenges related to fraud in audits of financial statements. We acknowledge all those in the financial reporting ecosystem involved in the preparation, approval, audit, analysis and use of financial reports have an essential role in contributing to high-quality financial reporting. The inherent limitations of audit must be recognized in this context. The primary responsibility for preventing and detecting fraud will always rest with management, so any approach should give due consideration to this fact. The extant ISA 240 generally provides an effective basis for dealing with the auditor’s responsibilities relating to fraud, so an evidence-based approach to any changes is necessary to ensure any changes to approach that will increase cost for auditors and clients genuinely add value and make a meaningful difference.

We are concerned that some of the proposals may lead to a widening of the existing expectation gap, especially the changes to enhance transparency about matters related to fraud in the auditor’s report. The requirements proposed may also result in extra work and effort on all audits, regardless of whether there have been specific fraud risks identified, and without corresponding increases in value. In this way, the changes may result in an approach that is not practical or cost effective for the majority of audits, while the proposals are unlikely to make a meaningful difference to audit quality in many cases.

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 understand the challenges in setting out the auditor’s responsibilities relating to fraud and the context under which some of the proposals have been shaped. It is critically important for the revisions to emphasize the inherent limitations of the ability of the auditor to address challenges raised by fraud, so that this is clear for all users. We believe that it would be helpful to include additional application material with paragraph 10 that adequately illustrates the real inherent limitations of an audit that cannot be overcome. Examples of such inherent limitations could include:

- Auditors generally do not have legal powers to search for and seize documents from within the entity, from other entities, or from individuals.
- Auditors generally do not have the legal powers to interrogate individuals within the entity or from outside the entity, under oath or otherwise.
- Management has the documents and records under its control and can therefore choose to conceal documents and records from the auditor without the auditor becoming aware of such concealment.

Adding further clarity or illustration of the inherent limitations could be part of the solution for addressing the existing expectation gap in this area.

We are concerned that there is an overarching theme in ED-240 that seeks to emphasize that fraud is different from other risks, considerations and work completed for financial statements audits. The treatment of non-material fraud will be discussed further, below. Proposed treatment in the audit report serves as another example and will be discussed within our response to question 5. There is nothing inherently exceptional about the impact of fraud on financial statements compared to other risks, and in the majority of cases there will be bigger existential risks to entities. Consequently, fraud risk may legitimately be of lesser concern to managers or TCWG. While fraud risk is undoubtedly important for auditors, and the existing expectation gap may compound this importance, this should not be given undue attention in the context of other important risks in a financial statement audit. There is also a fear that extending the scope of focus on fraud could later be repeated for other areas that become important due to corporate failings or newsworthiness. This may lead to unnecessary work in relation to fraud and subsequently other areas in future. This will ultimately not be in the public interest as it could have the potential to divert time and resources from equally or more important risks, which could impact quality and it may also become a barrier to meaningful audit reporting. As such, overall, this creates a challenge to the auditor's responsibilities in relation to fraud.

While we note there is attention given to management fraud within ED-240, for example the risk of management override of controls in paragraph 42, there is a greater focus on employee fraud than management fraud within the proposals. This is arguably misplaced, especially in the context of SMEs where management fraud is more likely to have a significant impact on the entity. The profile of management fraud could be raised within the standard to prevent the risk of auditors, potentially more likely SMP auditors, focusing attention on employee fraud at the expense of management fraud which may pose bigger risks to their clients.

We note that the extant ISA 240 has been criticized, primarily from those in the regulatory community, for opening with a focus on what the auditor is unable to do rather than what the auditor's responsibilities are. As such, we understand the rationale for the auditor's responsibilities now appearing ahead of the responsibilities of management and those charged with governance (TCWG) in relation to fraud. However, the sensitivities around shifting these sections should be given due regard. This may result in an implication that the auditors' responsibilities are now more significant than those of management, which could widen the expectation gap in this area and would not be in the public interest. The IAASB should consider strength of opposition to this change from practitioners and PAOs and adjust accordingly.

Practitioners have also raised concerns around the potential for the proposals to increase work required related to non-material fraud. The auditor cannot have formal responsibilities in this area, as their focus should be on significant risks, including those of material misstatement due to fraud. We note the wording of proposed Paragraph 6 attempts to convey this, and there is emphasis on material misstatement due to fraud in other proposed paragraphs (e.g., para. 23) too. However, references to 'fraud' or 'suspected fraud' in other areas of the standard may create confusion regarding the efforts that they would need to expend on non-material fraud. Wording throughout the standard should clarify focus only on fraud or related issues that may result in a material impact on the financial statements. Any specific work completed on non-material fraud or suspected fraud would divert resources from more important risks. Consequently, it would be useful for the IAASB to revisit the references to fraud and suspected fraud throughout and ensure they convey appropriate focus. For example, in Paragraph 55, if fraud or suspected fraud is identified, the auditor needs to determine the effect on the audit engagement, but to do so the auditor "shall" do the four things

identified in (a)-(d) of the paragraph. Where the fraud or suspected fraud is clearly trivial, carrying out these activities would result in inappropriate work for inconsequential added value to the engagement.

The considerations around third-party fraud and examples added in this respect have also raised concerns for some practitioners. We recognize that where an auditor has identified third-party fraud, or suspicion thereof, they would need to address this, and this would have also been the case under extant ISA 240. Consequently, the examples added may be useful for practitioners, but the increased references to this area may create unrealistic expectations of activity the auditor can undertake in reaction to suspicion of third-party fraud. Returning to the point of inherent limitations, in the context of third-party fraud, these are far greater because the auditor typically does not have any legal or contractual relationship with the third party, which compounds this issue. The practical reality is that it may be difficult to follow up any indications of third-party fraud where the third party holds the relevant information and records, so this could be better signposted in the standard or application guidance to keep expectations realistic and avoid widening of any expectation gap.

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):

Professional Skepticism is a mindset, and as such there will always be a limit to which requirements in audit standards can improve exercise of this mindset. In this manner, attempts to strengthen proposals in relation to professional skepticism in ED-240 may be unlikely to have a substantive impact in improving exercise of this. We agree with some of the changes, for instance the removal of the reference to the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance in paragraph 19. Preconceptions based upon past actions by management or TCWG could become a barrier to exercise of professional skepticism, and we support the approach where this should be considered from a fresh perspective in every engagement. However, we raise some specific challenges to the proposals.

We note that within Paragraph 20, the requirement no longer states unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. We note that proposed A26 of ISA 240 and A24 of ISA 200 within ED-240 retain references to similar effect, but it is not clear why the reference has been removed from the requirements. This is directly relevant in developing an approach in response to fraud on an engagement, so appropriately belongs in the requirements. Relying only on a presence in application guidance could lead to auditors expending undue effort to validate the legitimacy of documents where there are no identified indications of issues. The link created to ISA 500 in ED-240 could also be similarly problematic as it would create questions around what actually needs to be done to have audit evidence that can be relied upon.

While A26 states that procedures do not need to be performed to identify conditions that documents are not authentic, we note a list of conditions is presented. This could create an implication that review of

documents for these factors is necessary, creating an obligation to have a thought process around all of these example factors when reviewing documents. This may effectively result in the creation of de-facto requirements, where with the benefit of hindsight, challenges could be raised suggesting the auditor should have been alert to issues with documentation. It should also be noted that authenticity in the fraud standard has a different meaning than in ISA 200 or 500, and unintended interpretation differences could compound problems where this list of conditions is not considered for documents on engagements. Although this is in application guidance, the list could prove problematic for practitioners, so removal or reduction should be considered to address the risks this poses.

Risk Identification and Assessment

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

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

(See ED, paragraphs 26–42)

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

Detailed comments (if any):

We note the proposals build on the foundational requirements of ISA 315 (Revised 2019). There may be a challenge to build upon this as a base until a post-implementation review has been carried out as many practitioners have raised practical challenges in applying this standard. We also raise some specific challenges regarding the approach to risk identification and assessment taken in ED-240. For the audit of smaller entities, and especially NFP bodies, the presumed risk of fraud in revenue recognition may not be as relevant as it is in larger entities. A more measured consideration of where fraud risk appears could have been used to develop some of the foundational thinking for the standard. More specifically than general revenue recognition, recognizing sales or costs in an incorrect accounting period, manipulating stock or manipulating bad debt provisions would all appear to be more prevalent risks.

More generally, while the application guidance for smaller and less complex entities is appreciated, more guidance is required to illustrate what would be appropriate and how scalability would work practically. For instance, A58 of ED-240 states “In the case of a smaller or less complex entity, some or all of these considerations may be inapplicable or less relevant.” While some examples are then provided, overall, there is not enough illustration of the expected process and what elements of considerations can be cut back to make more applicable to SMEs. The majority of businesses subject to audit are not large companies, so the standard must be designed to cater to the majority of audits rather than focus on the largest or most complex entities.

The proposed approach may also be flawed for smaller entities in that it relies on inherent presumptions such as that there will be formal, written, risk assessment processes in place at all entities. This would not be the case for many smaller entities. As such, the proposals could do more to cater for the reality of situations auditors completing engagements may face.

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

Some specific revisions to parts of the application guidance in this section may also be appropriate. Paragraph A47 covering the retrospective review of the outcome of previous accounting estimates seems quite general and makes reference to indications of management bias. Management bias alone in this area would not necessarily be indicative of fraud, this would need to be intentional bias to give rise to an indicator of fraud. Paragraph A54 refers to unusual or unexpected relationships giving the example of the relationship between the value of government bonds and central bank interest rates. This may be a poor choice of example as the fair value of government bonds is often observable, which limits the utility of the illustration the example provides. A more common relationship, such as that between sales and operating expenses may be more appropriate to use. Paragraph A69 makes reference to 'external sources' but none of the examples presented appear to be ones where external sources would be especially relevant. Finally, paragraph A104 includes "employee retirement benefit liabilities," as an example of an area that may be susceptible to material misstatement due to fraud, but such a risk would often appear to be limited in reality, especially where valuation reports are required. This could be removed or replaced by an example such as valuation of investments or securities under the equity method investment.

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):

The work effort requirements and application guidance are robust, but there are a few challenges we raise. The wording of proposals in ED-240 could do more to clarify the difference between suspected fraud and alleged fraud. The difference can be significant as baseless allegations may be more commonplace in some jurisdictions and in some sectors, although we acknowledge some work would still be appropriate if these allegations could have a significant impact. Clarifying terminology and approach to remove any confusion in this area could be beneficial for users.

The public interest table (B.19) clarifies that “the fraud or suspected fraud requirements in paragraphs 55–59 apply to all instances of fraud or suspected fraud identified by the auditor, irrespective of materiality, and that the auditor is required to apply some or all of those requirements before determining the implications of the fraud or suspected fraud on the audit, including whether it is inconsequential.” Ultimately, the expectations in this area remain unclear with regards to the level of enquiries and work that need to be conducted in relation to non-material fraud.

Internal consistency in terminology within standards is an area where we often receive feedback that improvements would be helpful. There are some examples where wording in the requirements and associated application guidance in this area may create issues. Specifically, Paragraph 55(c) and A151 use the expression "remediation measures", while the third example in A41 and Appendix 1 use the similar expression "remedial action(s)". In addition, in the current International Standards of Quality Management (ISQMs) and International Standards on Auditing (ISAs), "remedial action (s)" is often used (for example, ISQM 1 paragraph 42, ISA 250 paragraph A25, ISA 265 paragraph A1, etc.) and "remedial measures" is

not used. It is not clear whether there is any intended difference between these terms, but we presume the lack of clarity means that this is not the case. If this is correct, then it would be useful to align terminology with the existing expression "remedial action (s)."

Similarly, in Paragraph 55 (a) through (c), the expression "the matter" is used to refer to the identified fraud or suspected fraud, but in Paragraph 55 (d), "identified fraud or suspected fraud" is used. Again, it would be useful to harmonize the expressions if they are intended to have the exact same meaning. The presence of inconsistent terms can create ambiguity which may pose challenges for both users of the English version of the standard and for translations.

Finally, as fraud in one entity can sometimes also result in fraud at a counterparty, it may be useful to flag to auditors that communication with the auditor of that counterparty in relation to potential fraud could be appropriate in certain circumstances. We note that legislation or other requirements may prevent this in certain jurisdictions and instances, so any mandated requirement for communication would be inappropriate, but situations can be envisioned where such communication would be in the public interest.

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

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

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

(See ED, paragraphs 61–64)

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

Detailed comments (if any):

We are generally supportive of improving transparency in matters relating to fraud in audit reports where this provides useful information to users and could be beneficial to the public interest, but the proposals made in ED-240 in this area will be problematic in many cases. Ultimately, the focus on improving what is reported by the auditor would not be an effective way of dealing with the underlying problems caused by fraud which could only be addressed by improvements throughout the financial reporting ecosystem. Auditing standards will have a limited impact on addressing the underlying problems with aspects management and TCWG have the greatest responsibility for. As such, the proposals within ED-240 with regards to audit reporting, even if in response to regulatory pressures, may give the wrong impression to those placing reliance upon audit reports.

We have several specific concerns. Inclusion of key audit matters (KAMs) regarding fraud in every report within scope of ISA 701 or requiring disclosing that there are no such KAMs in all reports within scope could encourage boilerplate disclosure. Paragraph 63 requires a subheading within KAMs related to fraud and paragraph 64 requires disclosures that there are no KAMs related to fraud where this is the case. These requirements would serve to raise the profile of fraud, even where the risks are not significant, above other potentially more important risks or matters, including other KAMs. Further, we note the references are to fraud rather than 'risk of material misstatement' due to fraud or 'material fraud' This would be problematic as the implication could be that KAMs should be reported for insignificant fraud. Overall, these requirements may not result in meaningful disclosures and could detract from other more important matters discussed in

KAMs. In this way, the proposals may not be conducive to improved transparency and could actually be detrimental to the public interest. The length of the audit report has been increasing in response to amendments to standards, and this could ultimately have an impact on the utility of this report.

More generally, reporting of suspected fraud in the audit report could open up auditors to accusations of false reporting, libel or defamation if such suspicions are not subsequently validated. Returning to the requirements of paragraph 64, the statement required if there are no KAMs related to fraud may be misinterpreted by users as the auditor signing off that there is no fraud. As such, this could serve to increase the expectation gap and lack of understanding of auditor responsibilities. There would also be a question of the judgment of different stakeholders at play which could impact this requirement. A business could experience fraud that the auditor would be aware of and consider trivial, but this may be viewed as an important factor so worthy of being a KAM by some stakeholders. With the benefit of hindsight, they may then argue that failure to disclose as a KAM resulted in a deficient audit report, where this would not be the view of the auditor. In areas like fraud, it is common for different actors to draw a line for what is important or significant in a different place, so the failure to make clear the reporting relates only to material fraud could put auditors in a difficult position.

There is also a separate challenge where disclosure of KAMs related to fraud may be problematic to the auditor. For instance, in situations where there is an ongoing investigation into fraud, the auditor may be prevented from making a disclosure about fraud that has been identified, due to legislation or other requirements. However, the proposals in ED-240 would either force them to disclose or state there were no KAMs regarding fraud, both courses of action would be problematic and would not be in the public interest.

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

Detailed comments (if any):

We support the expansion of transparency in the auditor's report about matters related to fraud to PIEs but would not support any further extension to other entities more generally. Any expansion needs to be carefully considered in light of some of the factors we have discussed elsewhere in this response, namely criticisms of the length of the audit report, the risk of 'boilerplate' disclosures, the risk of accusations of false auditor reporting where fraud has not been perpetrated if auditors declare there are no KAMs related to fraud and the challenge to the expectation gap.

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 \(with no further comments\)](#)

Detailed comments (if any):

Scalability

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

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

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

Detailed comments (if any):

Scalability within the full ISAs remains critically important regardless of the creation of the ISA for LCE standard. The LCE standard may not be adopted in many jurisdictions and many smaller or less complex entities may still need to be audited under the full ISAs.

The scalability considerations in ED-240 should be made more substantive with more guidance provided to assist practitioners in application. While there is some discussion for scalability in application guidance, it is not clear what changes might actually be made for SMPs conducting SME audits. More detailed guidance or examples would be needed to allow SMPs to comfortably take advantage of these as there would otherwise be fear of regulatory challenge as the views of regulators may differ. It is essential to make expectations clear to protect SMPs from such challenge. There should be some indication given within the standard itself as well as in application guidance to ensure the standard substantively accommodates scalability.

Please also refer to our response to question 3 where we conclude there is insufficient guidance provided to make the proposals in ED-240 genuinely scalable, and that some of the logic underpinning the proposals relies on assumptions that may not represent the reality in SMEs.

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

Detailed comments (if any):

We have mixed views in relation to the linkages made, noting that while they add length to the proposed standard, they also provide helpful direction of where to obtain further information and context for users, particularly those using electronic versions of the standard where navigability would be easier. The risk of this approach is that the added length could make it harder to identify new requirements in an easy way, and that these linkages could create confusion or added complexity for some users.

In particular, the delineation to ISA 250 (Revised) is not clear. We recommend including a clear statement that ISA 240 applies to the auditor's responsibilities regarding fraud and not ISA 250 (Revised) in addition to ISA 240, because otherwise the first sentence of paragraph 14 could be interpreted to mean that auditors would need to apply both standards at the same time, which would lead to duplication of work effort. We suggest that a sentence be added at the end of this paragraph as follows: "However, even though fraud constitutes an instance of non-compliance with laws and regulations, auditors are not required to apply ISA 250 (Revised) to identified or suspected fraud in addition to this ISA unless the additional responsibilities described in ISA 250 (Revised) are relevant in the circumstances."

Other Matters

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

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

Detailed comments (if any):

The proposals within ED-240 refer to ISA 230 and include a long list of documentation requirements in paragraph 70. As these requirements would be applicable (to the extent relevant) in all engagements, there will be cases where some of the required documentation may add little value to the file. The wording of some of these may also result in quite broad documentation requirements, for example 70(f) which requires documentation of fraud or suspected fraud identified. The IAASB should reconsider which of the

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁵ ISA 500, *Audit Evidence*

⁶ ISA 520, *Analytical Procedures*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

documentation requirements outlined are actually critical to all engagements and differentiate those which are more appropriate where a significant risk of fraud is identified to avoid unnecessary or boilerplate documentation becoming the norm, which could ultimately have an impact on audit quality through the mindset this can create in auditors.

We note the explanatory memorandum and the application guidance contain several references to the use of forensic specialists. There may be sufficient availability of such in-house expertise in larger firms to support audit engagements, but if expectations of use are made, this could create problems for SMPs who may be reliant on external expertise in this area. We note the proposed wording of A35 suggests such skills 'may' be applied, but this could be interpreted inconsistently by regulators, leading some to take this to be an indication such skills 'must' be applied. Where there have been specific risks identified in relation to fraud, it may be appropriate for SMPs to engage forensic specialists, but the IAASB should be careful not to create expectations (even if implied rather than actual) that such experience would be needed on all engagements.

We are mindful there has also been a substantial increase in the length of the standard and included application material. Some of the content is repetitive with the same concepts discussed again. Increasing the efficiency of wording within the standard would help improve its effectiveness by making it easier to use for practitioners. As an example, the proposed statement in the guidance paragraph A162 is largely redundant as it repeats content already present as a requirement in paragraph 61. Similarly, there appears to be some overlap between the examples set out in paragraphs A2 to A6 and the examples of fraud risk factors set out in Appendix 1. They may also be opportunities to remove duplication arising from examples provided in other standards, for example the three examples described in A138 of ED-240 are already present in A134 of ISA 540 (Revised).

Linked to the above, we have two more general observations in terms of recent projects. The pace and rate of change continues to make it difficult, especially for smaller practitioners, to apply new requirements and guidance effectively. Furthermore, there is a challenge with regards to the structural development of some recent projects and the proposals in ED-240 illustrate this. ISA 240 sits within 200 series, so the focus should be on overall objectives and fundamental concerns. However, the proposals in ED-240 extend into assessment and responses to risks in places, which would be in the territory of ISA 315 (Revised 2019) and ISA 330. Whilst we understand that it might be useful to have additional guidance in these areas, the requirements of other standards will always apply, so a question then rises as to what level of duplication is appropriate or acceptable if such an approach is adopted. This may also be something that creates additional complexity, especially for SMPs where central interpretation of requirements under a standardized methodology would be less common. As the majority of the users of the ISAs remain SMPs, it is essential the standards cater to their needs.

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):

The standard is reasonably easy to understand in English, which should bode well for translation, but we raise attention to some of the comments we have made earlier in our response. Reduction of the length of the standard and associated guidance by removal of any unnecessary duplication and repetitiveness and ensuring consistency of terminology would both be helpful for translation. We also recommend that the IAASB start looking at developing and maintaining translation libraries. Within these, key terminology that needs to be translated in a particular way for the profession could be captured. These will help prioritize certain translations of such terminology and the libraries can be used regardless of whether translation occurs through traditional means or is AI generated.

Effective Date

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

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

(See ED, paragraph 16)

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

Detailed comments (if any):

We believe alignment of the effective date with ISA 570 revisions will be beneficial to users of the standard, but an 18-month period after approval of the final standard may be problematic. In certain jurisdictions there will be a need to consider both translation and local amendments or add-ons following the final pronouncement. The process of local adjustments requires its own consultation process in many jurisdictions and as such if this process takes some time to complete, the firms who will ultimately be implementing may not have sufficient time to carry out any required training or amendment to their methodology and approach that may result from changes. Consequently, a 24-month period would be favorable, and may be especially useful for SMPs in allowing extra time to implement the standard. In terms of both translations and local considerations, the IAASB should be aware that due to the level of standards creation and amendment activity in recent years there will also be many other projects that would require attention at the PAO, regulatory and firm level. Past experiences with implementation of standards at the same time, for instance ISA 315 (Revised 2019) and the ISQM standards proved challenging, and allowing additional time may help to relieve some of the time pressure that may otherwise result.