

## 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)	Crowe LLP
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Kyle Owens Linda Poeschel
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Linda Poeschel
E-mail address(es) of contact(s)	linda.poeschel@crowe.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.	<a href="#">North America</a>
	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.	<a href="#">Accounting Firm</a>
	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:** [Neither agree/disagree, but see comments below](#)

### **Detailed comments (if any):**

We generally agree with the clarified auditor responsibilities relating to fraud in ED-240, including the way the proposal decouples those responsibilities from inherent limitations in an audit. (See commentary below related to non-material and third-party fraud.)

We believe that it is very important, however, to educate financial statement users that the *primary responsibility* for the prevention and detection of fraud rests with both management and those charged with governance of the entity, as stated in paragraph 3 of ED-240. We further believe that it is critical to educate users on the auditor's responsibilities, as clarified, and what are *reasonable expectations* related to the auditor's responsibilities including the inherent limitations described in paragraphs 9-11 of ED-240. Such communication and education are essential for users to understand the role of each party involved in the financial reporting process as it relates to fraud, and to prevent any widening of the "expectations gap" related to the auditor's responsibilities related to fraud.

Non-material fraud: Related to non-material fraud, we agree that auditors have an important role related to fraud detection. Specifically, as stated in paragraph 6 of ED-240, the auditor is concerned with a material misstatement of the financial statements due to fraud. As such, auditors should design their audits to appropriately identify, assess, and respond to *risks of material misstatement to the financial statements* due to fraud. This is not the same as management's responsibility when fraud or suspected fraud is identified, which is to determine if the matter is material to the financial statements. We also agree, as indicated in ED-240.8, that judgments about materiality involve both qualitative and quantitative considerations.

Consistent with these concepts, we advise the IAASB to consider the following changes to ED-240.8: "The auditor's determination of whether a fraud or suspected fraud reflects a risk of material misstatement ~~is material~~ to the financial statements involves the exercise of professional judgment. This includes obtaining an understanding of the nature of the circumstances giving rise to the fraud or suspected fraud and any ~~the~~ identified misstatement(s)." We also recommend that IAASB revise the introduction to ED-240 paragraph 8 by changing "the Fraud" to "Fraud or Suspected Fraud" and "the Identified Misstatements" to "Identified Misstatements".

As indicated in ED-240, the auditor should understand the nature of a fraud or suspected fraud. Based on the understanding obtained, which we believe should involve inquiries of management, the auditor should

apply professional judgment to determine if there is a related risk of material misstatement to the financial statements due to fraud. See more on this topic in our response to Question 4 below.

Third-party fraud: Related to third-party fraud, the IAASB notes in the proposal that it 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, this concept is not reflected within ED-240, as the content about third-party fraud within the standard is only definitional in nature. We recommend that the application guidance in A16 or A21, which provides examples of third-party fraud, clarify that the auditor's response related to third-party fraud is driven by a *risk of material misstatement in 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):**

We believe it is appropriate to emphasize professional skepticism to help auditors remain alert to possible fraud and exercise professional skepticism throughout an audit. We are in favor of this proposal from the perspective that auditors should be alert for indications of fraud or possible fraud and “apply a fraud lens” when performing risk assessment and further audit procedures.

As noted in our response to Question 1, we believe that education of financial statement users about *reasonable expectations* related to the auditor's responsibilities for fraud is very important.

Authenticity: Related to authenticity, as noted in the proposal, “In revising the requirement in paragraph 14 of extant ISA 240 (see the corresponding requirement in paragraph 20 of ED-240), the IAASB proposes to delete the explanatory lead-in sentence: “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine””, in part because “Paragraph A24 of ISA 200 already includes the sentence “The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.” We believe this language is important in the context of the auditor's responsibility related to fraud, especially considering the examples included in paragraph A26 of ED-240 related to authenticity. Therefore, we recommend that the deleted explanatory lead-in sentence should be reinstated in paragraph 20 of ED-240, modified to be consistent with the language in paragraph A24 of ISA 200. If this is not done, we recommend the inclusion of a cross-reference in paragraph 20 of ED-240 to paragraph A24 of ISA 200.

*Risk Identification and Assessment*

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>1</sup> 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):**

Foundational requirements: We concur with the need for the auditor to perform a robust risk identification and assessment as it relates to fraud, as well as to maintain a “fraud lens” when conducting the audit. However, we are concerned about the extent of duplication of content from ISA 315 (Revised) within ED-240, and the implications for the auditor’s performance and documentation requirements. It is not clear if the fraud-related risk assessment procedures are incremental requirements or if they are meant to drive the auditor to perform the “foundational requirements” with the application of a “fraud lens”.

We believe that the intent of the IAASB was to present the “foundational requirements” with a fraud lens in ED-240. The proposal indicates that “The phrase “In applying ISA...” signals that a requirement is intended to be applied in addition to or alongside performing the relevant requirements of the foundational standard.” However, the presentation in ED-240 may appear to auditors as incremental (and separate) required risk assessment procedures, specific to fraud. As such, to comply with the requirements, auditors may, unnecessarily, duplicate certain risk assessment procedures and related documentation.

We believe the most effective risk assessment procedures should include a cohesive focus on risks due to fraud *and* error. As an alternative to “repeating” or linking the foundational requirements of ISA 315 (Revised) in ED-240, the IAASB might consider clarifying in ISA 315 (Revised) that the requirements are intended to address both “risk of errors and risk of fraud”.

Rebutting the presumption of fraud risk in revenue recognition: We agree that there can be value in providing guidance to auditors on how to assess the ability to rebut the presumption that there is a fraud risk related to revenue recognition. However, we don’t believe that the application guidance provided in A110 of ED-240 is clear in this regard, as this paragraph states that it would be inappropriate to overcome the presumed risk. The examples provided in A111, however, appear to imply that and provide examples on how the auditor *can* overcome the presumed risk, when the fraud risk factors are not significant. As a result, this may drive inconsistent interpretation and application of the standard in this regard. We recommend that the IAASB update A110 to remove the following sentence “The significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition”. Along with this, examples provided in A111 should illustrate how the auditor may conduct the assessment and include an explanation for the conclusions reached in the example.

<sup>1</sup> 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:** [Neither agree/disagree, but see comments below](#)

**Detailed comments (if any):**

We believe that the revised requirements for when instances of fraud or suspected fraud are identified in the audit will drive more consistent auditor behavior and responses. However, we are concerned about the scope and scalability of the proposal.

The proposal indicates that “For all instances of fraud or suspected fraud identified by the auditor, ED-240 requires the auditor to apply at least some of the fraud or suspected fraud requirements that are applicable in the circumstances to determine the effect on the audit engagement.” Conceptually we agree with this, as it is critical for the auditor to sufficiently understand any fraud or suspected fraud matter to be able to perform a thorough risk assessment, to determine the appropriate audit response. However, we believe that certain of the proposed requirements appear to be overly prescriptive, for example in a case where management identified fraud which was deemed to be clearly not material, yet management communicated the matter to the auditors (e.g., a bank teller misappropriating cash from a teller drawer).

Specifically, ED-240 requires the auditor to perform procedures prescribed in paragraph 55 (a) through (d), and to apply the determinations required in paragraph 56. We understand that based on this process, portions or all of paragraphs 57-58 may not be applicable; this does provide some scalability. However, as noted in our response to Question 1, we believe there could be instances where an auditor is able to quickly determine, based on their professional judgment, that there is not a risk of material misstatement to the financial statements related to a particular fraud or suspected fraud matter. This could be because the fraud or suspected fraud matter was deemed to be clearly inconsequential. In these cases, the performance of all the procedures included in paragraphs 55 through 57 would not appear to be necessary.

Again, as stated in paragraph 6 of ED-240, “the auditor is concerned with a material misstatement of the financial statements due to fraud.” We believe that the requirement in ED-240 paragraph 55(a) for the auditor to make inquiries about the matter with a level of management that is at least one level above those involved and, when appropriate with those charged with governance, is critical to the auditor gaining an understanding of the matter. These inquiries should include how management responded to the matter. Based on the auditor’s understanding, including inquiries made, the auditor should exercise professional judgment to determine if further procedures, including further risk assessment, are needed relative to the identified matter. For a matter that is deemed by the auditor to be clearly inconsequential or to have no possible risk of material misstatement to the financial statements, further procedures should not be required. We propose that the requirements of paragraphs 55 (b) through (d), 56, and 57 should

not be explicitly required if the auditor has determined that there is not a reasonable possibility of a related risk of material misstatement.

We also believe that it would be appropriate for the requirements in paragraph 56 to be performed by someone other than the engagement partner, given the engagement partner's overall responsibility for review and supervision. Therefore, we recommend that paragraph 56 be revised as follows: "Based on the understanding obtained in accordance with paragraph 55, the auditor engagement partner shall:".

Paragraph 55a in ED-240 requires the auditor to make inquiries about a fraud or suspected fraud "with a level of management that is at least one level above those involved" with the matter. This appears to be too prescriptive as a requirement. We recommend the requirement be revised to require the auditor to make inquiries with an appropriate level of management. We believe it would be appropriate to include application guidance indicating that an effective approach is to make the inquiries about the matter at least one level above those involved.

*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 aligned with the IAASB's stated goal to "enhance transparency in the report where appropriate." As such, we support the proposed requirements with the intent to increase transparency in the auditor's report regarding the auditor's fraud-related responsibilities and procedures, as communicated to the audit committee.

We also support the application of a fraud "filtering mechanism" to assist auditors in determining which matters related to fraud (if any) may be key audit matters (KAMs). However, paragraphs 61 and 62 in ED-240 appear to reflect a requirement for the auditor to identify at least one KAM related to fraud. We believe ISA 701 provides a sufficient framework for the auditor, *using their professional judgment*, to evaluate fraud-related matters to determine if they should be reported as KAMs. Therefore, we believe the proposed requirements related to determining key audit matters related to fraud in paragraphs 62 is overly prescriptive, and we do not support them. In addition, the content of paragraph 61 in ED-240 would be better placed within ISA 701. For the same reasons, we do not support the proposed addition of "Including Matters Related to Fraud" to the KAMs heading, in ISA 701 paragraphs 11 and 16.

Paragraph 64 of ED-240 states, in part, that "if the auditor determines that there are no key audit matters related to fraud to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor's report." We do not support this requirement based on our concerns about the risk of confusion for financial statement users, potential boilerplate topics or language, and inclusion of original information about the entity.

Risk of confusion for financial statement users: If, in accordance with ISA 701, the auditor has identified a KAM related to fraud, the auditor will report it accordingly. The lack of a KAM related to fraud inherently means the auditor has not identified such a KAM. Therefore, we find it unnecessary to specifically communicate as such in the report.

Further, we are concerned that a user may misinterpret this statement in the report as the auditor providing some level of assurance that there is no fraud or no risks of fraud, or that a user may otherwise misinterpret the meaning of the auditor's statement that there are no key audit matters related to fraud to communicate.

Potential boilerplate topics or language: As noted above, we interpret ED-240 to reflect a requirement for the auditor to identify at least one KAM related to fraud. We believe that it is likely that many auditors may determine that their response to the presumed fraud risk related to management override was the matter related to fraud that was of most significance in the audit. This is likely to result in boilerplate language provided by auditors in reports that will not provide value to financial statement users.

Inclusion of original information: Based on the requirement in paragraph 62 of ED-240, we believe that auditors may be put in a position to report a fraud matter as a KAM that, based on the auditors' professional judgment, otherwise would not be identified as a Key Audit Matter. In reporting a KAM related to such a fraud risk matter, the auditor may find it necessary to include original information – that is information that management has not / is not required to publicly disclose. We believe the requirements in paragraph 62 of ED-240 increase the likelihood of reporting KAMs where management is not required to publicly disclose information related to such matters, thus increasing the risk of the auditor being in a position of disclosing original information. We believe it is not the auditor's responsibility to disclose such information. Furthermore, the auditor's description may leave the user with more questions about how management has evaluated and responded to the matter.

As noted above, we understand that the proposal reflects the intent of the IAASB to increase transparency in the auditor's report regarding the auditor's fraud-related responsibilities. We recommend the IAASB consider if this would be better addressed by making changes to the required KAMs introductory language in ISA 701, instead of the requirements included in paragraphs 63 to 64 in ED-240. For example, ISA 701, could be modified to require an introductory statement in the auditor's report that the auditor's consideration of KAMs includes matters communicated with those charged with governance related to fraud or fraud risks. The proposed requirements to apply a fraud filtering mechanism when assessing KAMs (paragraph 61 of ED-240) could be moved to ISA 701.

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):**



If the proposed report wording discussed in Question 5 is retained, we do not believe this should be applicable to audits of entities other than listed entities, such as PIEs. There are many different reasons why an entity could be determined to be a PIE and many different jurisdictions impacted. KAMs reporting may or may not be meaningful for the specific entity based on those variations.

Specifically, based on the proposed revised definition of PIEs, many non-public U.S. entities, such as insurance companies and certain financial institutions, would be considered PIEs. Requiring KAMs reporting for these entities, including specifically the reporting of fraud KAMs, could be confusing in the US non-public audit space, where currently, KAMs reporting is voluntary. Further, the potential benefits of KAMs reporting may not justify the costs to develop methodologies to report KAMs.

*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 believe that the concepts are sufficiently covered in other standards, such as ISA 315 (Revised) and ISA 330 (Revised). We do not believe the separate stand-back requirement is needed in ISA 240, so we agree with exclusion from ED-240.

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

**Detailed comments (if any):**

ED-240 appears to be sufficiently scalable relative to the size or complexity of entities. Refer to our responses to Question 1 and Question 4 for our concerns on scalability related to non-material fraud and the proposed requirements on fraud and suspected fraud.

While we do not disagree with the requirements and application guidance related to engagement resources, we note that the extent of guidance related to forensic skills could lead some to believe that there is an

expectation that forensics should be involved in most audits. We do not believe that this is the intent of the IAASB.

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>2</sup> ISA 220 (Revised),<sup>3</sup> ISA 315 (Revised 2019), ISA 330,<sup>4</sup> ISA 500,<sup>5</sup> ISA 520,<sup>6</sup> ISA 540 (Revised)<sup>7</sup> and ISA 701<sup>8</sup>) 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):**

See our responses to Questions 3, 5, and 7 related to risk assessment per ISA 315 (Revised), KAM reporting matters per ISA 701, and consideration of stand-back requirements.

*Other Matters*

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

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

**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):**

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

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

<sup>4</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>5</sup> ISA 500, *Audit Evidence*

<sup>6</sup> ISA 520, *Analytical Procedures*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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

*Effective Date*

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

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

*(See ED, paragraph 16)*

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

**Detailed comments (if any):**

We agree with the need to consider the effective dates of other related projects of the IAASB and other standard-setters, including in the areas of fraud and noncompliance with laws and regulations, in addition to the noted areas of going concern and listed entity/PIE. Effective dates should be aligned to allow for efficient implementation of changes in standards that address similar or related topics.