

## 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)	Irish Auditing & Accounting Supervisory Authority
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Hilda Breslin
E-mail address(es) of contact(s)	hilda_breslin@iaasa.ie
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="#">Europe</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="#">Regulator or assurance oversight authority</a>
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	IAASA is the independent statutory body in Ireland responsible for oversight of the audit profession and adoption of standards on auditing, professional ethics and internal quality control, as well as the inspection and promotion of improvements in the quality of audits of public interest entities.

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):**

ED 240 is an improvement on the extant standard, including the structure, better alignment with other standards, the added objective regarding reporting, responsibilities of management and those charged with governance, what should be done when fraud occurs, emphasis on qualitative materiality and clarification that difficulty in detecting material misstatements in the financial statements resulting from fraud (rather than error) does not reduce the auditor's responsibilities. We also support the requirement to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (paragraph 43).

### **Role of the Auditor**

According to ISA 200, the overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. It should be emphasised in ED 240 that these existing provisions drive the role of the auditor conducting an audit in accordance with the ISAs.

### *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):**

IAASA welcomes the strengthening of requirements regarding the exercise of professional scepticism in relation to fraud throughout the audit of financial statements in ED 240. However, we have identified a number of areas where, in our view, further enhancements should be made:

- We suggested that the use of stronger language in ED 240 (such as “challenge”, “question” and “reconsider”) would be a good way to foster an appropriate mindset and action by the auditor.
- In paragraph 30 of ED 240, the IAASB should emphasise the importance for the auditor to investigate responses to inquiries of management and those charged with governance (TCWG) that are

implausible in addition to those that are inconsistent. Implausibility is only mentioned as example of a risk factor in ED 240.

- We welcome the deletion of paragraph 14 of extant ISA 240 which states that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine. The IAASB should also remove this language from paragraph A24 of ISA 200, as it weakens the key message that the auditor is required to consider the reliability of audit evidence.

*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:** [Agree, with comments below](#)

**Detailed comments (if any):**

In our February 2021 letter, relating to the IAASB’s discussion paper on this topic, IAASA raised the need to facilitate the integrated application of all the ISAs. In this regard, IAASA welcomes the improved alignment with ISA 315 which will, in our view, lead to a more robust risk identification and assessment in relation to fraud.

*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):**

**Definition of fraud**

The IAASB should consider adding corruption, bribery and anti-money laundering to the definition of fraud in ED240. Additionally, the language in paragraph A19 should be amended to make it clear that corruption, bribery and money laundering are fraudulent acts.

Paragraph A11 states: ‘Even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on: (a) Who instigated or perpetrated the fraud – an otherwise insignificant fraud perpetrated by senior management is ordinarily considered qualitatively material irrespective of the amount involved. This may in turn give rise to concerns about the integrity of management responsible for the entity’s system of internal control.’ Material fraud often begins with quantitatively non-material fraud and we support the inclusion of ‘qualitative materiality’. We suggest:

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

- 'Cumulative materiality' such as the period of time covered by the fraud should also be considered. Misappropriation of assets that is not quantitatively material in the current financial year could be if the fraud has taken place over several years and is cumulatively larger than the quantitative materiality level.
- The size of the illegal advantage should be taken into account, for example bribery for a small amount to obtain large contracts.
- Moving the application material in paragraph A11 to the requirements section of the ISA. This will reduce room for interpretation and decrease the risk of inconsistent application by auditors.

Our understanding is that paragraph 40 requires a gross approach, i.e. the auditor must identify and assess the risks of material misstatement due to fraud before taking internal controls in consideration. Paragraph A22 explains that fraud risk factors may relate to incentives, pressures or opportunities that arise from events or conditions that create susceptibility to misstatements before consideration of controls. Paragraph A56 states that a condition that is generally present when fraud exists is the perceived opportunity to commit fraud. However, as this is usually due to inadequate internal controls, the IAASB should consider clarifying this point in the context of the requirements in paragraph 40. There is a risk that auditors may tend to conclude that significant fraud risk factors (before consideration of controls) are mitigated by strong internal controls implemented by the entity (without testing their operating effectiveness), leading them to reduce the significance of the fraud risk factors and thus the identification and assessment of the risk of material misstatement due to fraud. The IAASB should clarify that:

- the identification of fraud risks should not be limited or mitigated by the internal controls in place in an entity;
- weaknesses in internal controls should be considered when analysing opportunities for fraud; and
- testing the operating effectiveness of controls in accordance with ISA 330 is a mandatory response when, in the auditor's assessment, the risks of material misstatements due to fraud have been reduced due to the internal controls implemented by the audited entity.

#### **Understanding the entity and its environment**

For improved clarity and consistency of approach, paragraph 35(b) should require the auditor to make inquiries of individuals within the entity that have responsibility for dealing with fraud reports as well as 'other appropriate individuals'.

#### **Engagement team discussion**

The IAASB should consider including a provision to require communication by the group auditor with component auditors of material components regarding the risk of fraud at the component in a group audit.

#### **Presumed fraud risk – revenue recognition**

The rebuttal of the presumed fraud risk regarding revenue recognition is no longer included in the requirements (paragraph 41 of ED 240). While this is a step forward in our opinion, we still think that there is too much room given to auditors in the application material (paragraphs A110 and A111) as well as the documentation requirements (paragraph 70(d)) to rebut the presumed risk.

The examples of events or conditions in the application material (paragraphs A109 and A111) are either very complex or very simple. Paragraph A109 relates to very complex and risky situations where it is evident that fraud risk factors can emerge, while A111 relates to very simple situations where it is evident that fraud risk is remote. However the most challenging situations for auditors are likely to arise when dealing with situations that are in between these two extremes. For instance, what would be the decision when, the audited entity has:

- numerous different types of services, each of which is not very complex and not subject to significant estimates; or
- numerous rental properties with numerous different tenants, but there is no complexity or estimates in the determination of revenues?

In these situations, there is a risk that auditors will conclude that the presumption may be rebutted, considering there are no significant fraud risk factors. Consequently, clarification would be helpful for the situations that are “in between”, which could complement paragraph A110.

Paragraph A111 contains examples of situations where fraud risk factors may not be significant. However, in the final example the term ‘simple and straightforward’ is open to interpretation and there is a risk that auditors may classify a lot of revenue streams under this category to rebut the presumed fraud risk.

Some regulators have noted the situation where the auditor does not consider the fraud risk, i.e. when auditing revenue, the auditor collects sales invoices and related proof of payment without performing any procedures validating that the revenues invoiced are accurately computed based on for instance the agreement. Based on that, the auditor considers that an invoice paid is the best audit evidence to support the accuracy of the revenue. The same applies with suppliers (in that case as a potential third-party fraud). We believe ED 240 should clarify that payment of an invoice alone is not necessarily sufficient to prove the accuracy of revenues or charges, that fraud risk and its impact on financial statements are to be considered by the auditor in those situations.

The IAASB should consider rewording paragraph 70(d) regarding the documentation required when the presumption related to revenue recognition is “not applicable in the circumstances of the engagement”. This may be seen as an encouragement to auditors to rebut the presumption of fraud risks for all revenue streams in an audit. We suggest that it should be replaced by a requirement to document the analysis to be performed in paragraph 41 (determine which types of revenue exist, revenue transactions and relevant assertions that give rise to fraud risks, including any revenue types where the presumption has been rebutted and the reasons for that conclusion).

Paragraph 70(d) should also stress the need for the documentation to be sufficient to enable another practitioner to understand the rationale for the rebuttal as well as requiring documentation to show that, where applicable, all the entity’s revenue streams have been considered. Additionally, the IAASB should consider including application material to provide guidance for auditors on the documentation that would be appropriate in such cases e.g. engagement team discussions, discussions with technical experts, experience in previous audits and no changes to the revenue streams, internal controls or key client personnel in this area.

### **Use of specialists**

While ED 240 includes additional material on the use of specialists, it should be made clear that the use of a specialist does not reduce the auditor’s responsibility for the audit. The auditor remains responsible for forming and expressing the audit opinion. In addition, it is important for auditors to be clear on the expertise that they expect from a specialist and the link with the audit engagement. Discussing the need for a specialist’s involvement with TCWG may prove beneficial.

### **Engagement quality review (EQR)**

Additional engagement quality review procedures focused on the engagement team’s responsibilities relating to fraud should be considered for all engagements where an EQR is required. In particular, the engagement quality reviewer should be required to review the reasons used to conclude that the presumed fraud risk related to revenue recognition has been rebutted.

### **Communications with TCWG and other parties**

Communicating more information to TCWG, including audit committees, and to other authorities allows the entity to take remediation measures on a timely basis. For example, for PIE audits in the European Union, when an auditor suspects or has reasonable grounds to suspect that irregularities including fraud with regard to the financial statements of the audited entity, may occur or may have occurred, the auditor is required to inform the audited entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities in the future. Where the audited entity does not investigate the matter, the auditor is required to inform the authorities responsible for investigating such irregularities (Article 7 of Regulation 537/2014/EU). These provisions should be integrated in the ISAs.

The IAASB should also consider requiring the auditor to assess whether the measures taken by management are appropriate and evaluate the impact on its relationship with the audited entity.

**Significant risks related to management override of controls (including journal entry testing)**

The IAASB should consider providing examples of the types of procedures that should be performed in response to such risks related to management override of controls. In paragraph 42, the IAASB could also consider requiring the auditor to evaluate the risk of management override and to identify and evaluate where in the financial statements or specific assertions and classes of transactions the risk of management override may arise.

**Written representations**

The statement in paragraph A180 of ED 240 that “although written representations are an important source of audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal” should be moved to the requirements section as it is integral to the auditor’s use of written representations. A corresponding amendment should also be made to ISA 580.

**Application material**

A further example of misappropriation of assets that could be provided in paragraph A6 is over or underpayment for goods and services.

The statement in paragraph A10 that allegations of fraud involving the entity are treated as suspected fraud by the auditor is of such importance that it should be moved the requirements section of the standard.

Paragraph A17 states that Appendix 5 to the standard “identifies other ISAs that address specific topics that reference fraud or suspected fraud”. For the avoidance of doubt, it should be clarified that this does not reduce the responsibility on the auditor to consider all relevant ISAs, whether or not they are listed in Appendix 5.

Given the continuing evolving nature of technology and its importance in many audits, the language in paragraph A36 should be amended to state that the engagement partner would usually be expected to consider expertise in IT systems etc when determining if the engagement team have the necessary competence and capabilities.

In paragraph A147 it would be helpful to include the use of forensic expertise in the second example.

The intent of the examples in paragraph A148 is unclear as the question of what the auditor needs to do in response to such investigations by the entity remains unanswered, such as for example evaluating the expert hired by the entity (as required in ISA 500, paragraph 8). Additionally, legal privilege could be applicable in investigations by clients, when performed by a lawyer. It would be helpful to give guidance on what an auditor should do with these reports.

In paragraph A152, the IAASB should replace the word ‘believed’ in the first example. Auditors have to perform procedures to determine that the suspected fraud was not material, management was not involved etc. It is not sufficient for an engagement partner to “believe” a suspected fraud is inconsequential without performing further audit procedures.

*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):**

## Auditor's report

To increase transparency, the IAASB should require the auditor to explain the extent to which the audit was considered capable of detecting fraud in the auditor's report. At a minimum this should be required for PIE audits, as required by European Union legislation.

### Key audit matters (KAMs)

IAASA supports paragraph 63, which requires an appropriate subheading in all audit reports regarding fraud related KAMs. Fraud related matters should always be highlighted in the KAMs, particularly given the public interest in and heightened stakeholder expectations regarding entities that are required to apply ISA 701.

IAASA also supports the proposal that the auditor shall include a statement when no specific KAMs related to fraud have been identified. Paragraph A175 (and A57 in ISA 701) sets out 3 circumstances in which this statement can be made. "The auditor determines ... that there are no KAMs regarding fraud" should only arise in exceptional situations and so should be removed from this paragraph.

We also recommend strengthening paragraph A176 which states: "it may be rare that the auditor of ... a listed entity would not determine at least one key audit matter related to fraud". Based on our inspection experience, this situation is unfortunately not 'rare' in practice. Additional clarity is needed in both ED 240 (for example in paragraph 64 and the related application material) and ISA 701 that fraud risks should be disclosed in the KAMs and disclosing no key audit matters in relation to fraud is the exception.

ED 240 and ISA 701 leave room for interpretation regarding whether fraud risks are risks that require significant auditor attention. For example:

- Paragraph A168 of ED 240 states 'the auditor may determine that certain risks of material misstatement due to fraud did not require significant auditor attention and, therefore, these risks would not be considered in the auditor's determination of key audit matters in accordance with paragraph 62.'
- Paragraph A21 of ISA 701 states 'The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention'.

These paragraphs seem to imply that some fraud risks do not need significant auditor attention. We think that this is a wrong signal to auditors and ask the IAASB to remove this from both ED 240 and ISA 701.

We note that there is a lot of overlap between ED 240 and ISA 701 on the responsibilities and procedures in the Auditor's Report. We suggest that the IAASB should review the application material in ED 240 to ensure it is fully consistent with ISA 701. Otherwise, there is a risk that these paragraphs may give rise to confusion and leave too much room for interpretation rather than providing clarification.

A number of countries already require reporting on fraud in the auditor's report. Early experience indicates that, while fraud risk and procedures performed by the auditor are communicated, relevant findings and conclusions about fraud risk are not. The IAASB should consider whether auditors should be required to report findings related to fraud, including findings and conclusions regarding fraud risk, and how to discourage the use of boilerplate text by auditors in this area.

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):**



Yes - in addition to our response to Q5, we support the reporting of fraud related KAMs for all PIE audits.

*Considering a Separate Stand-back Requirement in ED-240*

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

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

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

**Detailed comments (if any):**

It is our view that a stand-back requirement should be included in ED 240 given the high level of public interest in this area. While there are stand-back requirements in other ISAs, they are not focused on fraud. There is a risk that, in the absence of such a requirement, the auditor may not adequately assess whether information obtained late in the audit process may be indicative of fraud. Additionally, the auditor should be required to consider both contradictory and corroborative information.

The application material (paragraph A30) highlights the importance of remaining alert when performing audit procedures near the end of an audit when time pressures may impede the exercise of professional scepticism. The IAASB should re-consider if this is the appropriate location for this statement, given the IAASB's choice not to insert a stand back requirement for the auditor to take all audit evidence into account in forming conclusions at the end of the audit.

*Scalability*

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

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

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

**Detailed comments (if any):**

We welcome the IAASB's approach to integrate scalability considerations into ED 240. However, the IAASB should review the provisions of ED 240 that refer to other ISAs to ensure that they are sufficiently clear on their scope where relevant differential requirements apply. For example, ISA 701 in respect of KAMs (paragraphs 61-64) applies to listed entities and where required by law or regulation.

*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):**

While we welcome the improved links to other ISAs, we think that ED 240 could be clearer on the importance of its interaction with ISA 250, for example by including a reference to ISA 250 in the introductory section (e.g. paragraph 1).

*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):**

**Coordination with IESBA**

As with other standard-setting projects, we highlight the importance of appropriate coordination between the IAASB and the IESBA. Changes to the ISAs, if any, should be mirrored to ensure consistency with the provisions of the IESBA Code and coordinated with the IESBA.

**Specific items for consideration by others**

We encourage the IAASB to liaise with relevant other parties which are likely to take action on the following matters to ensure a convergence of efforts to address fraud issues:

- Delivering educational actions, for instance explaining the role of auditors regarding fraud more clearly and precisely to stakeholders; and
- Further developing the two-way communication culture in the audit profession with audit committees and TCWG, in order to facilitate efficiency of the dialogue on fraud risks.

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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*

*Translations*

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

**Overall response:** [No response](#)

**Detailed comments (if any):**

*Effective Date*

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

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

*(See ED, paragraph 16)*

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

**Detailed comments (if any):**

We support the IAASB's proposed effective date.