

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)	NRF
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Helene Agélie
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	helene.agelii@nrfaccount.org
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Europe
	If "Other," please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Member body and other professional organization
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

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 have no strong views regarding the reordering and clarification of paragraphs in the introductory section of ED-240. On one hand we understand the rationale for focusing on the auditor's responsibilities in an audit standard. At the same time, we believe there is a need for caution when dealing with the auditor's responsibilities so that the balance and expectations on all parties in the financial reporting ecosystem are not worsened given the lack of cooperation in this fight against fraud.

In terms of the auditor's responsibilities related to non-material fraud, the EM refers to paragraphs 6, 8 and A11. We understand what the IAASB is trying to achieve although the message here is more implicit than clear. However, there is a bigger issue related to non-material fraud and that regards references throughout the ED to only fraud or suspected fraud without linking this to material misstatements of the financial statements. For example, it is unclear how non-material fraud relates to paragraph 55. But above all, the proposals to new wording in the auditor's report that refers to "matters related to fraud" are worrying because they risk being perceived as the auditor making disclosures that also covers non-material fraud which might cause new and unnecessary expectation gaps.

We support the inclusion of third-party fraud and the way the IAASB has proposed to address these matters, although recognizing that there might be some inherent limitations in how to obtain necessary information.

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 do support reinforcing the exercise of professional skepticism but since this is about a mindset we are not convinced that repeating the message over and over again in different standards will make a big difference in practice. Training and tone of the top are more likely the keys for success.

In terms of the actual proposals, we have the following comments:

We do agree that paragraphs 12-13 clearly reinforce the exercise of professional skepticism. It is not so clear though how A13 and A14 support the auditors as those paragraphs only refer to and discuss the requirements in ISQM 1 related to firm responsibilities.

According to paragraphs 20 and A26-A28 the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic. Reference is given to ISA 500 paragraph 7 that clearly states that the auditor shall consider the relevance and reliability of the information to be used as audit evidence. So, on one hand the auditor is required to consider reliability and on the other hand the auditor is not required to ensure that the evidence might not be reliable. In addition, extant ISA 240 paragraph 14 (now suggested to be deleted but still remain in ISA 200 paragraph A24) reads “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine”. These references combined can easily be confusing and move the attention from ensuring that documents are reliable to trying to understand the ISAs. In our view A26-28 should be reworded and include a definition of what is meant by authentic and also clearly state the procedures necessary to use a document/record as audit evidence.

Also, we would prefer retaining the introductory wording in extant paragraph 14 “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” in the requirement but at least we believe that information should be included in ISA 240.

Both A26 and A29 contain (too) long lists of examples. A risk with longer lists is that they become checklists and also that they are perceived as being quite exhaustive. We understand that practitioners often ask for more guidance and examples and we believe there are many reasons for why such guidance is better placed in complimentary non-authoritative documents. For example, it helps to keep the standard itself more stringent and principles-based, it enables a faster process when it comes to keeping the examples updated (which is especially important given the technological development), and it reduces the risk that the examples are being interpreted as being part of the actual requirements.

There is a risk that the example list in A26 is used as some kind of checklist for every document. One of the examples states, “information that would be expected to be included is not there” and we wonder how that is supposed to be understood. It is also an issue that the examples seem to be very focused on documents and not enough on records.

Risk Identification and Assessment

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

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

(See ED, paragraphs 26–42)

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

Detailed comments (if any):

Below are some detailed comments to this section.

Paragraphs 27/A45-A46. A46 refers to ISA 510 and requests to predecessor auditor of identified or suspected fraud. Taking on an engagement with identified or suspected fraud has some further consequences beyond the identification of potential fraud factors. There should be some reference to ISQM 1 Acceptance and Continuance.

Paragraphs 29/A52. Inherent risks in internal control such as known weaknesses in access control, cyber security, frequent restructuring processes, moving of employees/functions are also quite relevant. We encourage the IAASB to consider whether these might be helpful examples to include either here or in non-authoritative guidance.

Almost all of **paragraphs 30-42** begin with “In applying ISA 315 (Revised)”. This should, if needed at all, be shortened to one paragraph or considered to be included in ISA 315 (Revised). It should also be considered if application material is needed for every paragraph, at least where the application material repeats application material already available in the ISA it is referring to.

A56/Appendix 1: A56 clearly states that the three conditions that generally are present when fraud is committed, can exist individually or in combination. Appendix 1 should repeat this and not just state “...classified based on the three conditions generally present....” since this can easily be interpreted as if all three conditions need to be present.

Appendix 1 under section “Risk factors relating to misstatements arising from misappropriation of assets” the first sentence also includes: “...according to the three conditions generally present when fraud exists:”. Same comment as above, this should be reformulated to clarify that all three conditions don’t have to be present (or not identified by the auditor even if they are present).

A108 reads “*there may be greater risks of material misstatement due to fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales that present an opportunity for theft*”. This is more a potential example of misrepresentation of assets than revenue recognition as the sale has occurred. If the example is intended to address cash sales as a potential higher risk to be booked in the wrong period, then that needs to be clarified. Otherwise, we suggest removing this example.

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

Examples in **A109** related to fraud risk factors in revenue refer primarily to risk factors in publicly traded entities. For audits of LCE fraud risk factors may be different. Examples for these should be included as well.

A111 It is a bit difficult to understand these examples. More information is needed so it is obvious for the reader which attributes/inherent factors each of these examples include that makes it possible to conclude that they will not be significant.

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):

Overall, we support including more explicit requirements on how to address identified fraud situations. We also support emphasizing the involvement of the engagement partner.

However, paragraph 55 in ED-240 together with its application material, for example paragraph 55 (a) and A147, gives the impression that focus is on fraud committed by lower level of management or staff. These situations are relevant but fraud involving top management or even TCWG are the kind of frauds that more often might lead to material misstatements of the financial statements and eventually cause corporate failures. These situations are not sufficiently addressed in the standard. The requirements in paragraphs 57-58 could be enhanced in this respect.

Also, paragraph 55 addresses “fraud or suspected fraud”. According to the definitions in paragraphs 6 and 7, this includes the entire spectrum from actual fraud to all kinds of fraud allegations. The starting point that triggers actions is therefore set very low and we question whether this is reasonable and appropriate. In our view at least clearly trivial allegations and inconsequential suspicions of fraud should be excluded. The auditor should be allowed to apply some professional judgment. The way the paragraph is drafted it also includes non-material fraud and non-material suspected fraud, which contributes to a lack of clarity about the auditor’s responsibilities (see paragraph 18 of the EM).

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):

Although we are in favor of transparency, we are concerned with the proposed way of addressing shortcomings in the application of current KAMs to fraud situations.

We cannot see how adding a subheading about fraud and also explicitly mentioning “matters relating to fraud” will add any value. Rather we are concerned that this may have the opposite effect and lead to larger expectation gaps. Even the option chosen by the IAASB (option 3) might disturb the balance with and reduce the significance of other KAMs. Also, since the proposals in the auditor’s report refer only to “fraud” without at the same time linking it to risks of material misstatements on the financial statements it might give the impression that the audit also deals with non-material fraud.

Including a KAM requires the auditor to refer to information in the financial statements. In cases where the financial statements do not include wordings to refer to there is a risk that the auditor will include original information. In order to reduce such a risk these proposals should be aligned with correspondent requirements in the accounting standards.

Most worrying, however, is the requirement in ED-240 paragraph 64 to include a statement in the auditor’s report that there are no matters related to fraud to communicate. This is bound to lead to misunderstandings, confusion and new expectation gaps. It is quite likely that users perceive the statement as an auditor opinion that there is no fraud in the company since they will not understand how to interpret “to communicate” correctly. The risk of misunderstanding the meaning of the statement is particularly imminent in situations where the exemptions in paragraph 14 in ISA 701 apply, for example in a situation where there is an ongoing police investigation regarding fraud that is not made public and where the auditor is not allowed to disclose any information.

There is also a concern what impact adding enhancements to the auditor’s responsibilities (ISA 700 paragraphs 40 a) and c) will have on audits performed according to ISA for LCEs.

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

Detailed comments (if any):

Considering a Separate Stand-back Requirement in ED-240

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

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

Overall response: [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):

While we appreciate the examples included in ED-240 there remain some foundational challenges since many fraud risk factors tend to be more directed towards circumstances related to PIEs and may not represent the reality for SMEs/LCEs. For example, the standard relies on inherent presumptions such as that there will be formal, written risk assessment processes in place at all entities, which may 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.

Also, the presumed risk of fraud in revenue recognition may not be as relevant in SMEs as it is in larger entities. 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.

General guidance such as 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, which is not really helpful.

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: [Disagree, with comments below](#)

Detailed comments (if any):

In recent revisions of the ISAs IAASB have included extensive references to other ISAs and to some extent repeated requirements that already exist in other ISAs. This cross referencing makes it harder for a practitioner to understand and adhere to the ISAs. Larger firms and networks have the resources to develop methodologies and systems covering the ISAs but smaller firms and smaller PAOs do not have those resources. This way of drafting makes us wonder who the standards are written for, the large accounting firms' software or the individual auditor?

According to the EM this way of drafting is intended to promote an integrated risk-based approach with respect to fraud. We are not convinced that it works, especially regarding the relationship between ED-240 and ISA 315 (Revised). In applying ISA 315 (Revised) with the "fraud lens" we believe it would be much more user friendly and make more sense to include the fraud lens within ISA 315 (Revised). Overall, sometimes the many "in applying ISA XXX" paragraphs seem to be more focused on the alignment with other standards than on the subject matter that the revisions are meant to address. At least there is a risk when navigating between the different standards that the user loses focus on what the practitioner actually needs to do.

One of the key issues related to linkages between ED-240 and other ISAs which the ED is trying to address is the relationship between ISA 240 and ISA 250 (Revised). Paragraph 81 a) in the EM states: "...more clarity is needed if a fraud is identified or suspected, *whether the auditor is performing procedures to comply with ISA 240 or ISA 250 (Revised)*". In our view the mentioning in ED-240 of ISA 250 (Revised) is primarily a reminder not to forget that ISA 250 (Revised) also exists and there may be additional responsibilities in that standard that the auditor also needs to comply with. However, the content in paragraph 14 of ED-240 could be further clarified to address the concerns referred to in paragraph 81 a) in the EM.

See also our response to Q 10.

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*

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):

Overall, we have noticed some drafting developments in recent IAASB projects, including ED-240, that worry us.

For example, the standards keep getting longer and longer despite length and volume being some of the key issues with the current ISAs that were raised by respondents to the Discussion Paper from 2019: *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*. When the revised standards include a mixture of “nice to have” and “need to have” information there is a risk that the length itself and the number of changes make it difficult to distinguish what is really new and expected to drive a change in behavior.

Also, most of the time the added length relates to more application material. An imminent risk with this development is that detailed application material with several examples negatively affects the principle-based approach that is supposed to be characteristic of the requirements. The principle-based approach loses value and the standard itself contributes to a checkbox behavior where the scope for applying professional judgment also is being reduced.

We are aware that practitioners often ask for more guidance and examples. In our response to Q2 we have explained why we believe this would be better placed in complimentary non-authoritative documents.

Similarly, we are concerned about the abundance of references to other ISAs in recent IAASB projects, including in ED-240. One effect of this drafting approach is that the boundaries between what are – and what should be regulated in – the foundational standards compared to the more topical ones have become blurred. The basic ISA structure is no longer perceived as equally relevant.

For example, one could question if ED-240 still belongs in the 200-series, especially now since it also includes how to respond to fraud or suspected fraud. Also, given all references to ISA 315 (Revised), in particular how to apply ISA 315 (Revised) with the “fraud lens”, we wonder whether parts of what is now in ED-240 rather belongs in ISA 315 (Revised). We question whether the integrated risk-based approach works, especially with the drafting of the “fraud lens” to ISA 315 (Revised) in another standard.

Also, in order to try to address expectation gaps, or at least not create new ones, we believe it is very important not to refer to “fraud” or “suspected fraud” per se but link the fraud concerns to the risks of material misstatements of the financial statements. This is especially important in terms of external communication such as if the final version of this project will include KAMs in the audit reports that specifically address fraud.

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 coordinating the effective dates of the revised ISA 240 with both the Going Concern project and the PIE - Track 2 project. When the final versions of these projects have been approved, and given that this coordination requires more time for national due process, translation and training, we urge the IAASB to consider if 18 months remains most appropriate or if more time is needed.