

## 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.

DRAFT

**PART A: Respondent Details and Demographic information**

Your organization’s name (or your name if you are making a submission in your personal capacity)	Pan African Federation of Accountants
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Lebogang Senne Ochuko Odesa
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	<a href="mailto:lebogangs@pafa.org.za">lebogangs@pafa.org.za</a> <a href="mailto:ochukoo@pafa.org.za">ochukoo@pafa.org.za</a>
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="#">Africa and Middle East</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="#">Member body and other professional organization</a>
	If “Other,” please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	The Pan-African Federation of Accountants (“PAFA”, “we” and “our”) is a not-for-profit organisation that works to strengthen the capacity and influence of the accountancy profession in Africa. As a representative of Africa’s professional accountants, our objective is to accelerate the development and strengthen the voice of the accountancy profession within the continent and worldwide.

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):**

The IAASB effectively emphasized that auditors must consider the risk of material misstatement due to fraud as integral to the audit, requiring procedures to ensure financial statements are free from material misstatements due to fraud and to communicate these findings. ED-240 clearly sets out the auditor's responsibilities regarding fraud in financial statements, including non-material and third-party fraud, however, noting that fraud may involve both management and those charged with governance our view is that the standard lacks clarity on auditor requirements in such cases. We propose therefore, that guidance or procedures be included for responding to these situations. In addition, we propose that the standard explicitly acknowledge the responsibilities of management and those charged with governance to implement controls to prevent and detect fraud. We believe that it is critical that the IAASB support bridging the expectation gap and prevent further widening it, consequently, we encourage the IAASB to undertake a review to articulate more clearly the auditor's responsibilities in relation to third-party fraud.

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

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

*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):**

ED 240 is appropriately built on the foundational requirements in ISA 315 (Revised 2019) as it followed a similar structure to ISA 315 (Revised 2019) and incorporates the recent changes which made fraud risk identification and assessment more robust, including requirements describing the auditor’s explicit or specific fraud considerations when obtaining an understanding of the Entity and its environment, applicable financial reporting framework; and the components of the entity’s system of internal control, including the control environment, the entity’s risk assessment process, the entity’s process to monitor the system of internal control, the information system and communication, and control activities.

We note that ISA 315 (Revised) paragraph A61 explains *why the auditor obtains an understanding of the entity’s business model*. In the context of fraud risk identification, understanding the business at a strategic level, including the business risks it faces is exceptionally important because it provides the auditor with insight into management’s *intentions*, i.e. the motivation behind their business decisions. Given *intention* is the key differentiator between material misstatement due to fraud and error, this is considered a key omission ED-240. We therefore propose for this to be incorporated into ED-240 paragraph 33(a), with complementary application material.

*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):**

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

We agree that ED-240 establishes robust work effort requirements, however, some stakeholders have raised concerns about their applicability to different fraud or suspected fraud scenarios. Specifically:

- ED-240 doesn't differentiate between the auditors' required response to confirmed fraud versus suspected fraud and doesn't consider how this may differ depending on the source of the information.
  - While the explanations in paragraphs 54 – 57 of the Explanatory Memorandum is acknowledged, we believe that ED-240 can benefit from further enhancements, using the requirement in ED-240 paragraph 55 as an example.
    - For confirmed fraud:
      - i. May auditors rely on internal investigation reports, or is an independent investigation necessary?
      - ii. How does the auditor evaluate whether the remedial actions are appropriate?
    - For suspected fraud:
      - i. What should auditors do if inquiries do not yield further information and management takes no action?
      - ii. Is there a requirement for auditors to engage an investigator or expert to assess the need for an investigation?
- ED-240 doesn't address how the auditor must respond to suspected fraud under investigation.
  - An ongoing investigation can significantly delay the financial statements due to uncertainties related to suspected fraud, which is not in the public interest. For ongoing investigations, we question:
    - Whether the auditor can conclude the audit (assuming this is also allowed legally)?
    - What intermediate actions the auditor must take in the public interest?
- ED-240 doesn't address how the auditor must respond when they suspect management or those charged with governance of fraud.
  - Assuming the auditor is unable to obtain further information, and therefore unable to perform the procedures in paragraphs 56 – 59, we question:
    - Is it sufficient for auditors to seek legal advice and consider withdrawal, or are there minimum procedures to follow / complete first?

- How does the auditor comply with the requirements in ED-240 paragraph 60, such as the requirement to identify a misstatement and communicate with the appropriate level of management and those charged with governance about the auditor's withdrawal from the engagement and the reasons for the withdrawal.
- ED-240 doesn't address how the auditor must respond when, under circumstances of suspected management or those charged with governance involvement in fraud, the auditor is requested to resign as auditor.
  - We recommend that the IAASB provides clearer distinctions and guidance for auditors facing different fraud scenarios, including those involving management and governance. The IAASB may take into consideration developing a flow chart to direct the auditor's response to fraud or suspected fraud.

*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):**

We agree with the need for enhanced transparency about the auditor's responsibilities related to fraud, because of the public interest and user demand. Despite this, we have concerns as to whether the proposed KAM requirements in ED-240 will achieve this transparency. Other concerns include: the practicality of reporting on fraud related KAM specifically, when investigations are ongoing, and the outcome is uncertain. This could lead to difficulties in determining what to report and how to report it. This may further attract litigations against the auditor in instances where there are grey areas or uncertainties. We recommend the development of clear boundaries on the level of suspicion that is reasonable for a suspected fraud to be considered as a KAM to promote consistent treatment of suspected fraud for example, requiring that at minimum there must be an open investigation. This could assist with balancing the public interest need for transparency and the auditor's reputational risk if the suspicion is unsubstantiated.

There is a concern that users of the audit report, especially those without a financial background, might misinterpret the fraud-related KAM as an assertion that this is a legal determination by the auditor even if the matter is still under review or investigation, which could further increase the expectation gap between users and auditors.

We agree with the view that elevating the reporting requirement for auditors without an equal elevation of reporting requirements for directors or those charged with governance may contribute to the current public perception that the auditor is responsible for the identification of fraud

(widening the expectation gap). We therefore recommend that the IAASB consider including a requirement (where jurisdictionally relevant or applicable) to state in the management responsibility paragraph what management's governance requirements are related to fraud prevention and detection to better balance the reporting responsibilities in the auditor's report for example, identifying the legal requirements and / or any formal control frameworks being applied by management. This may be achieved through adapting the requirements in ISA 700 (Revised) paragraph 34. Recognising that the governance requirements are mainly prescribed in law and regulation this may have the added benefit of encouraging jurisdictional changes to laws and regulations to drive enhanced corporate governance requirements and practices.

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):**

We support enhanced transparency requirements related to fraud in ED-240 for PIEs and, where relevant, for all entities subject to our comments in response to question 5 above.

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

**Detailed comments (if any):**

The revised standard already addresses the need for auditors to consider audit evidence from an overall impact perspective. Including a stand-back as a double-check could confirm sufficient appropriate audit evidence on fraud matters.

The stand-back provision is acceptable if it parallels ISA 315 R, focusing on the engagement partner's responsibility to review relevant working papers without exposing auditors to forensic risks. It should confirm whether the fraud assessment is sufficient or if additional procedures are needed.



To encourage professional skepticism, a stand-back requirement may be worth including as it prompts auditors to consider the evidence holistically before concluding on whether the financial statements are materially misstated. Additional guidance on performing stand-back requirements could further enhance its effectiveness.

*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):**

There were varied opinions on whether fraud requirements should be adjusted for smaller audits or entities. Some argued that the significance of fraud is independent of the entity size, making scalability irrelevant. Others highlighted a concern for smaller entities, specifically the lack of guidance in the standard for conducting risk assessments in companies without a formal control framework, where management override risks are higher due to less segregation of duties. Additionally, the transparency requirements for smaller audits are not clearly articulated.

*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:** [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*

*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:** [See comments on translation below](#)

**Detailed comments (if any):**

Although we do not have specific translation issues to report, we emphasize the importance of considering translation implications and welcome the IAASB's initiative to gather feedback on this matter.

*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:** [No response](#)

**Detailed comments (if any):**