

Fraud and Going Concern Discussion Paper

2a. Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements?

Yes\If yes, in what areas

Q2a.1-01 - Yes - Analytical procedures

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How required analytical procedures in the planning and closing stages of an audit are being dealt with, since high level year-on-year analytics are unlikely to support the identification of fraud risks.

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

A requirement to perform more robust analytical procedures, i.e. beyond analytics performed at the financial statement caption level, as the auditor is unlikely to identify “unusual or unexpected relationships”, in the absence of a more detailed analytical review. This is in the context that even small companies these days have hundreds and thousands of data lines, given the automation of the general and subledger entries.

2a. Should the auditor have enhanced or more requirements with regard to fraud in an audit of financial statements\Q2a.1 - Yes\If yes, in what areas\Q2a.1-02 - Yes - Audit documentation

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Documentation

Auditors should be required to document fraud risk factors. ISA 240 requires auditors to document identified and assessed fraud risks but not the judgments made in reaching their conclusions including their consideration and assessment of fraud risk factors. The limited documentation requirements in ISA 240 are inconsistent with ISA 230, Audit Documentation because it does not enable the engagement team to be accountable for their work, retain a sufficient record of matters of continuing significance for future audits and to support the conduct of quality control reviews and inspections.

Committee of European Auditing Oversight Bodies (CEAOB)

whether the audit documentation requirements should be enhanced in ISA 240 particularly on inquiries of management, TCWG or others in the entity, their consequences on the audit approach and on the assessment by the auditor of the appropriateness of the entity’s processes for identifying and responding to the risk of fraud;

Financial Reporting Council (FRC)

Documentation - emphasising that, as required by ISA (UK) 230, if the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

Independent Regulatory Board for Auditors (IRBA)

Lastly, we recommend that Documentation also be updated to include minimum documentation requirements for journal entry testing procedures.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

whether the audit documentation requirements should be enhanced in ISA 240 particularly on inquiries of management, TCWG or others in the entity, their consequences on the audit approach and on the assessment by the auditor of the appropriateness of the entity's processes for identifying and responding to the risk of fraud;

Q2a.1-03 - Yes - Clearer description of auditors responsibility and objectives

1. Monitoring Group

International Association of Insurance Supervisors (IAIS)

Focus on audit quality: The IAIS suggests that a key focus of the IAASB's review should be to set out clearly the responsibility of auditors in relation to fraud and going concern and what is expected from auditors with the objective of enhancing audit quality. This should aim to help to ensure that auditors are able to deliver high quality audits.

The issue of whether there is an expectations gap in relation to fraud and going concern may be of some use but would appear to be of secondary importance given the IAASB's role. If the focus of the IAASB's review is a perceived expectation gap then this could lead to the review focusing on what auditors are not able to do rather than what they can and should. Similarly, it could also focus on communications and managing expectations rather than on auditors' appropriate responsibilities and activities, factors that are more likely to improve audit quality.

Issues relating to Fraud

Clarity of objectives and the responsibility of auditors: The IAIS considers that revisions to auditing standards should clarify and emphasise that the objectives of the auditor in relation to fraud include obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. This seems clear from the requirement of an audit "to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error" (ISA 200 para 11). However, this message may appear to be diluted by the statements such as that in ISA 240 that "the potential effects of inherent limitations [on the auditor's ability to detect material misstatements] are particularly significant in the case of misstatement resulting from fraud" without clearly stating that the auditor's responsibilities are not affected by this increased difficulty.

Although we agree that the identification of material misstatements may be more difficult for material fraud than for material error, auditing standards and auditors should nevertheless strive to ensure that both are detected. The IAASB should therefore clarify the responsibility of auditors and their role in identifying and mitigating material risks from fraud. It is important for auditors to consider how fraud may affect the risk of material misstatement or the quality and persuasiveness of the audit evidence that is gathered. It may also be helpful for auditors to consider the extent to which there might be signs in governance, internal controls or corporate culture that might point to the increased risk of both financial and non-financial fraud that are material.

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Ultimately, it is the engagement partner's responsibility to ensure fraud risks are appropriately identified and responded to by the engagement team. We note that there is no explicit requirement to this extent in either ISA 220 or ISA 240. We believe the role of the engagement partner in this regard should therefore be enhanced, as opposed to requiring the engagement quality reviewer to do more, given the engagement quality reviewer's responsibility to remain objective.

Q2a.1-04 - Yes - Closer or enhanced linkage to other ISAs

Q2a.1-04-01 - Yes - Closer or enhanced linkage to other ISAs - Give greater emphasis to requirements that are already embedded in the ISAs

4. Accounting Firms

KPMG

Changes to ISAs

We are supportive of exploring clarifications to the auditing standards, in particular, ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, and ISA 570 (Revised), Going Concern. However, we believe that at a conceptual level the ISAs, and the audit itself, remain fit for purpose.

We note that many of the potential solutions set out in the DP would give greater emphasis to requirements that are already embedded in the ISAs, such as involvement of specialists (which would include forensic specialists and deployment of technology solutions, assisted by such specialists) when the engagement team considers appropriate; guidance regarding how to appropriately exercise professional scepticism, and challenging management appropriately regarding their assumptions and judgements.

Other potential solutions proposed, in our view, would constitute enhancements to existing ISA requirements, rather than representing fundamental changes to the ISAs. For example, in respect of fraud, introducing a 'standback' requirement to evaluate audit evidence obtained and how that affects our fraud risk assessment and the nature, timing and extent of our procedures to address fraud risks, and in respect of going concern, ISA 570 (Revised) may benefit from an enhancement that expresses the time-period for management's going concern assessment as covering at least, but not limited to, 12 months from the date of authorisation of the financial statements, rather than from the reporting date. However, this change would only be appropriate if it was aligned with the requirements of the relevant financial reporting framework. We also support the provision of training for auditors in forensic accounting and fraud awareness.

We believe such changes are commensurate with the nature and purpose of an audit of financial statements, as well as with the skill set of an audit professional, which naturally evolves over time. We suggest such enhancements to the ISAs apply to all audits, aligned to the risk-based approach that underpins audits, and not based on broad criteria e.g. size of an entity or whether an entity is listed, as such an approach may limit its effectiveness. For example, non-listed entities do not necessarily have a lower fraud risk profile than listed entities, and we highlight that going concern is a fundamental assumption underlying the basis of preparation of financial statements across all entities.

Q2a.1-04-02 - Yes - Linkages to ISA 200 - Aspects of professional skepticism\01 - Yes - Linkages to ISA 200 - Exercising professional skepticism

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Integrating the concept of effective challenge of management in application guidance in each of the relevant ISAs on how to apply professional skepticism, including ISA 240, would require auditors to assume a more active stance when critically evaluating the evidence obtained from management. This contrasts to the more passive definition of professional skepticism in ISA 200 which requires auditors to remain alert to, among other things, audit evidence that contradicts other audit evidence obtained. Effective challenge of management may also be more closely aligned with how the public perceives the role of the auditor.

Q2a.1-04-03 - Yes - Linkages to ISA 220 (Revised) - Quality management at the engagement level\01 - Yes - Linkages to ISA 220 (Revised) - Resources

4. Accounting Firms

PricewaterhouseCoopers (PWC)

Requiring the use of forensic or other relevant specialists and in what circumstances

The IAASB has recently finalised ISQM 1 and ISA 220 (Revised), which give emphasis to the importance of determining that the engagement team has the right resources to conduct the engagement. If proposing revisions to ISA 240, the IAASB could consider incorporating linkages back to these principles, including with respect to the firm's policies and procedures. We note that there is a range of specialist support that engagement teams can draw upon (commonly the starting point is the firm's risk management and methodology specialists). Engaging forensic specialists is often reserved for circumstances when addressing identified or suspected fraud.

Q2a.1-04-03 - Yes - Linkages to ISA 220 (Revised) - Quality management at the engagement level\02 - Yes - Linkages to ISA 220 (Revised) - Tone at the top

4. Accounting Firms

PricewaterhouseCoopers (PWC)

Actions that change behaviours are likely to have a more meaningful impact in achieving the desired outcomes than adding a new term. What seems more important is to reinforce key concepts that underpin critical behaviours, including:

Tone at the top and commitment to quality across the engagement team – conveying the importance of scepticism, and the need for more persuasive evidence the higher the assessed risk. The recently approved changes to ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019) may assist in that regard;

6. Member Bodies and Other Professional Organizations

Institute of Singapore Chartered Accountants (ISCA)

We agree with the DP that firm culture is a key component of audit quality and a lack of clear firm policies and procedures with regard to audit quality is a cause for poor audit quality. While standards can endeavour to influence mindset and behaviour, firm culture plays a critical role in driving behaviour that impact audit quality.

Paragraph 32 (b) of the recently issued ISQM 1 requires personnel to demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.

In our view, there needs to be an increased emphasis within ISQM 1 on the accountability of the engagement partner vis-à-vis other firm personnel. We note some commendable firm practices where engagement partner remuneration is linked to audit quality. Any major audit quality issues will have a direct impact on an engagement partner's remuneration and prolonged audit quality issues may even result in an engagement partner's dismissal from the firm.

Appropriate actions which commensurate with the engagement partner's responsibilities are important as the tone from the top ultimately cascades down to the engagement team and drive how the audit is carried out.

Q2a.1-04-03 - Yes - Linkages to ISA 220 (Revised) - Quality management at the engagement level\03 - Yes - Linkages to ISA 220 (Revised) - Professional skepticism and significant judgments

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Engagement quality review

We agree with the measures proposed in the DP and believe that the new set of standards on quality management should facilitate their application. We refer in particular to the general requirement as included in paragraph 25 (b) and related application material (paragraphs A34 and A35) of the ISQM 2 and to ISA 220 (Revised) and its application material (paragraphs A 36, A 54 and A 92) which include explicit references to fraud and going concern.

Q2a.1-04-04 - Yes - Linkages to ISA 250 - NOCLAR\01 - Yes - Linkages to ISA 250 - Clarify linkages when fraud or suspected fraud or NOCLAR is identified

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

Non-compliance with laws and regulations - . A matter that is often closely related to fraud is non-compliance with laws and regulations, particularly where that non-compliance is intentional as it is often also fraudulent in nature. We have therefore asked respondents for their views on whether more could be done to clarify the links between ISA 240 and ISA 250.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

what is required of the auditor when fraud is detected and the impact on the planned audit approach which includes links to ISA 250 Consideration of Laws and Regulations in an Audit of a Financial Report and ISA 260 Communication With Those Charged With Governance.

Malaysian Institute of Accountants (MIA)

As mentioned in our response to Question 1(b), to make a substantial change, all stakeholders which includes those charged with governance (TCWG), regulatory bodies as well as auditors in the ecosystem must be involved as enhancements to the ISAs alone and re-defining the responsibilities of the auditors will not have a substantial effect on the expectation gap.

Notwithstanding the above, we believe that auditors should evolve in how they perform audits and there should be enhanced requirements with regards to fraud in narrowing the expectation gap. However, any enhancements to be done should be within the capability of the auditors and in accordance with the objectives of the financial statement audits under the ISAs.

We are supportive of the IAASB looking into revising the ISAs to provide auditors with a stronger framework to support the detection of fraud. We believe it is critical that the auditor has an end-to-end view of fraud risk across the audit, from risk assessment procedures through to designing and executing procedures to address risks of material misstatement due to fraud and consequential communications. With this in mind, we are supportive of the IAASB's project on fraud to develop enhanced connections between ISA 240 and the other ISAs, which could also involve the development of implementation guidance that can bring together and describe these connections in a single document. This would help to drive more consistent application of the current requirements.

Auditor responsibilities for non-material fraud

The existing ISA provides guidance where the auditors are required to assess the potential impact (quantitatively or qualitatively) of fraud risk identified or suspected (including non-material fraud). In many cases, the materiality of a matter identified may not be truly understood without further investigation. Therefore, we believe that ISA 240 requires enhancement to address auditor's responsibilities for non-material fraud.

Fraud is a matter that is often inter-related with non-compliance with laws and regulations and often constitutes an illegal act. Therefore, we encourage the IAASB to clarify within ISA 240 the relationship between responding to non-compliance with laws and regulations and responding to instances of fraud.

4. Accounting Firms

PricewaterhouseCoopers (PWC)

While an indicator of "fraud" may not give rise to a material misstatement of the financial statements, there may nevertheless be considerations as to whether the matter gives rise to non-compliance with applicable laws or regulations. We believe the IAASB could explore whether the relationship and linkage between ISA 240 and ISA 250, in particular the inter-relationship between identified fraud risk indicators and identified or suspected non-compliance with laws and regulations, is sufficiently clear.

7. Investors and Analysts

Corporate Reporting Users Forum (CRUF)

Yes. It is already clear that auditors need to look for fraud as a potential cause of financial misstatements. They must do their job on this front. We request improvement on the points mentioned in Questions 1 (a) and (b). It is understandable that it is difficult for the auditor to detect the kind of fraud that does not lead to misstatement of financial statements. However, ISA720 requires the auditor to read and consider other information beyond the financial statements. Other information, including non-financial information, includes

the description of a wide range of matters such as corporate risks, business models, governance systems. Auditors need to pay close attention to these as well. This means better communication is needed between the auditor, those charged with governance at the company and others. By strengthening the checking of non-financial information by auditors, it is expected that they will have more opportunities to notice fraud that does not directly lead to misstatement of financial statements.

It is not entirely clear to us whether IAS require auditors to carry out procedures to consider or identify material non-compliance with laws and regulations, as such would highlight a risk of fraud. If ISAs do not or they are ambiguous, some CRUF members suggest that it is made clear that auditors have an obligation to carry out such procedures.

9. Individuals and Others

Christian Minarriz (CM)

Third party fraud: current definition of “fraud” in the ISAs includes fraud perpetrated by third parties. Placing particular emphasis on third party fraud may create an unnecessary focus on fraud perpetrated by third parties, while diverting attention from internal fraud (which is more common, especially for fraudulent financial statements schemes). Requiring auditors to design procedures to detect third party fraud which is not material to financial statements may inappropriately expand the scope of an audit. Some third party fraud that may severely impact the entity (like cyber-attacks) may generally be included in the scope of ISA 250 as fraud is generally a illegal act, so the ISA 250 requirements may be applicable.

Q2a.1-04-04 - Yes - Linkages to ISA 250 - NOCLAR\02 - Yes - Linkages to ISA 250 - Clarify definition of fraud versus NOCLAR

3. National Audit Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

It would be useful to have a clear definition of fraud although this might be difficult to achieve. Fraud seems to be a collective term which includes non-compliance with laws and regulations (e.g. corruption, money laundering) and green washing as well. The overlap and differences between ISA 240 and ISA 250 might also not be well understood. Furthermore, the focus should remain on material fraud as it is impossible to detect all immaterial frauds that do not directly relate to the financial statements such as petty theft. We recommend have an overall definition which includes material fraud and non-compliance and considering integration of ISA 240 and 250. It should be clear which actions need to be taken in the various circumstances and scenario's (e.g. a decision tree might be useful).

Q2a.1-04-05 - Yes - Linkages to ISA 260 (Revised) - Communication with TCWG\01 - Yes - Linkages to ISA 260 (Revised) - Clarify linkages when fraud or suspected fraud is identified

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

what is required of the auditor when fraud is detected and the impact on the planned audit approach which includes links to ISA 250 Consideration of Laws and Regulations in an Audit of a Financial Report and ISA 260 Communication With Those Charged With Governance.

Q2a.1-04-05 - Yes - Linkages to ISA 260 (Revised) - Communication with TCWG\02 - Yes - Linkages to ISA 260 (Revised) - Greater two-way communication with management or TCWG

4. Accounting Firms

BDO International Limited (BDO)

Improving requirements to communicate what has been done (this could be through greater two-way communication with management or TCWG, alternative reporting methods or additional reporting requirements within auditors' reports) although this was counterbalanced by a concern that in many jurisdictions, auditors' reports are already quite lengthy.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

We recommend that the Board consider whether the requirements outlined in ISA 240 paragraphs 40-42, and the related application guidance achieve their intended objectives; specifically, whether the existing auditor communication requirements sufficiently promote two-way communication between the auditor and those charged with governance. In our view, the communication requirements, as currently written, lack specificity with respect to the significant judgments in the auditor's fraud risk assessment and could better address the specific planned responses and results of procedures related to fraud risks. We believe it is important that those charged with governance fully understand the auditor's risk assessment with respect to fraud and the judgments made. Correspondingly, more detailed requirements also could help encourage those charged with governance to communicate to the auditor how they oversee management's risk assessment process and their own views of fraud risk within an entity. This would assist the auditor with considering whether there has been robust dialogue with those charged with governance related to the fraud risks within an organization and whether such risks have been appropriately addressed in the audit.

Q2a.1-04-06 - Yes - Linkages to ISA 265 - Communicating deficiencies in internal control to TCWG\01 - Yes - Linkages to ISA 265 - Clarify linkages when communicating deficiencies

4. Accounting Firms

PricewaterhouseCoopers (PWC)

In the context of the auditor's understanding and evaluation of internal control, in accordance with ISA 315 (Revised 2019), ISA 240 could, for example, address whether the entity has designed and implemented certain expected controls (for example those set out in the COSO Fraud Risk Management guide). Consideration could also be given to expanding the communication requirements to those charged with governance to explicitly refer to reporting of any identified significant deficiencies in that regard, in accordance with ISA 265.

6. Member Bodies and Other Professional Organizations

South African Institute of Chartered Accountants (SAICA)

Deficiencies in the overall control environment and in the design of the internal controls or failure to implement such internal controls are contributing factors to fraudulent activities. At some point significant internal control deficiencies are usually identified by the auditor, even if it is not during the financial period when fraud occurred. However, such deficiencies are not reported to the users of financial statements in the auditor's report when they are initially identified. There is room for the IAASB to enhance the reporting

requirements in the auditor's report when it comes to deficiencies in the overall control environment and the internal controls. Reporting on internal control deficiencies would alert the users of financial statements of areas where the opportunities to perpetrate fraud may exist due to weaknesses in the overall control environment and the internal controls. This is a reporting requirement that can be made applicable to all types of engagements where internal control deficiencies are identified by the auditor, including both public interest entities as well as LCEs. Such disclosure, should, however, not be done in isolation but off the back of enhanced management disclosures. . The IAASB would further need to assess the impact of such requirement on other ISAs such as ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, as this would require that enhanced guidance may need to be provided on what constitutes 'significant deficiencies.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\01 - Yes - Linkages to ISA 315 (Revised 2019) - More robust risk assessment procedures (In addition to inquiry)

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, at risk assessment and substantive levels and also at Engagement Quality Review level.

Independent Regulatory Board for Auditors (IRBA)

Requirements to perform specific observations and inspections (in addition to inquiry), in line with the requirements of ISA 315 (Revised), paragraph 14, that will aid the identification of fraud risks.

4. Accounting Firms

GTI

Focus of the standards

We note that the ISAs are written in terms of risk of material misstatement arising from fraud and from error. The way in which these risks might arise, and manifest are very different, with fraud usually requiring a higher degree of sophistication, and as such, may need to be considered and assessed differently. We recommend that consideration be given as to whether it would be appropriate for the requirements in the standards to be drafted in a manner that requires separate consideration of the risk of material misstatement due to fraud and the risk of material misstatement due to error. In this respect, we would recommend that consideration is given to reassessing ISA 330 and how the responses to the assessed risks of material misstatement could be impacted based on the underlying cause of the risk of material misstatement.

MHA Macintyre Hudson (MHA)

Any revisions to ISA 240 should be aligned further with ISA 315 (Revised) with emphasis on risk assessment procedures to identify fraud, how technology may be used in identifying and responding to risks of fraud, as well as setting out clearer responses when potential fraud has been identified.

PKF International Limited (PKF)

ISA requirements could also be enhanced on other areas of fraud, for example:

regarding how the auditor applies professional skepticism to the identification of fraud,

risk identification and assessment procedures on fraud,

communications to Those Charged with Governance on procedures and conclusions relating to fraud, and on the commentary on fraud provided in the Auditor's report.

Prior to agreeing the terms of engagement, acceptance and continuance requirements could be enhanced. For example, audit practices could be required to consider whether staff have sufficient competency and expertise specifically to identify fraud risk factors given the nature and complexity of the client.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Examine areas where the auditing standards could be enhanced to further enhance the application of professional scepticism, including the use of random testing. The correct execution of the risk assessment stage of the audit was seen as vital to correctly addressing fraud in particular. However, before revision is made to the standard, it is important to gain greater evidence on the current methods used in financial statement fraud and the areas of the financial statements which are most often targeted, so that any proposed revisions are targeted.

Institute of Singapore Chartered Accountants (ISCA)

Linkage between risk assessment procedures, professional skepticism and sufficient appropriate audit evidence

While paragraph A10 of ISA 500 Audit Evidence recognizes that audit evidence can be obtained through performing risk assessment procedures, paragraph 5 of ISA 315 states that risk assessment procedures by themselves do not provide sufficient appropriate audit evidence.

As a result, the insights obtained from understanding the entity may not be seen as a persuasive form of audit evidence but rather, only viewed as the basis for designing further procedures.

This could have an unintended consequence of engagement teams spending insufficient time on understanding the entity and instead only focusing on substantive procedures and obtaining evidence over financial statement line items.

Without a robust risk assessment, the auditor might not be able to appropriately identify risks and design and perform procedures to respond to those risks. In addition, insights obtained from understanding the entity and its environment would enable the auditor to exercise professional skepticism, especially in identifying unusual transactions or irregularities in audit evidence obtained.

The IAASB could relook into how the ISAs can promote an increased focus on risk assessment procedures.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\02 - Yes - Linkages to ISA 315 (Revised 2019) - Inquiries of individuals within the internal audit function (Emphasize importance of making such inquiries)

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Furthermore, we identified during our inspections some provisions of the standards that create difficulties and where improvements could be made. As such, we encourage the IAASB to examine:

how to further emphasize in ISA 240 the importance to make inquiries of the internal audit function and to review reports and documentation of internal audits related to fraud;

[Irish Auditing and Accounting Supervisory Authority \(IAASA\).pdf](#)

how to further emphasise in ISA 240 the importance to make inquiries of the internal audit function and to review internal audit reports and documentation related to fraud;

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\03 - Yes - Linkages to ISA 315 (Revised 2019) - Inquiries of management and TCWG (Emphasize importance of investigating responses that are implausible or inconsistent or contradictory evidence)

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

The IAASB should also consider other clarifications and/or enhancements of ISA 240 and ISA 570 to improve those standards. Some examples of areas that should be examined by the IAASB are highlighted hereafter in the sections dedicated to fraud and going concern. Please note that our proposals below are not intended, at this stage, to be a complete list of all potential enhancements that we consider should be made to those standards.

More generally, the question of the linkage and interactions between ISAs dealing with the main principles applicable to audit and ISAs dealing with specific elements of the audit (for example in relation to fraud or going concern) is often raised when standards are under revision. We suggest that the IAASB reflects further on the best way to facilitate the integrated application of all the ISAs.

The IAASB should also emphasize the importance for the auditor to investigate responses to inquiries of management and TCWG that are implausible or inconsistent (for example with the business rationale behind transactions).

[Irish Auditing and Accounting Supervisory Authority \(IAASA\).pdf](#)

The IAASB should also emphasise the importance for the auditor to investigate responses to inquiries of management and TCWG that are implausible or inconsistent, for example with the business rationale behind transactions.

3. National Audit Standard Setters

Korean Institute of Certified Public Accountants (KICPA)

(KICPA response) We believe the current auditing standards and relevant law and regulation provide sufficient requirements on auditors in relation to frauds. However, it has still room for improvements as follows: ① cooperation from the management, TCWG, government and regulators, thereby making it possible for audit procedures related with frauds not to be performed just as a formality, and build-up of appropriate environments and thorough application of requirements in practice; and ② emphasis should begin with the responsibility of the management, prior to highlighting the auditor's responsibility, in relation to frauds.

Royal Netherlands Institute of Chartered Accountants (NBA)

Furthermore, the connection between revised ISA 315 and ISA 240 might be reconsidered. Although the inherent risk factors in revised ISA 315 do include fraud, the importance thereof could be stressed. Finally, It should also be investigated whether clear agreements between all parties involved can be made Management and those charged with governance are responsible for the control of fraud risks and have to play their role. For fraud where management is involved, those charged with governance should act.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\04 - Yes - Linkages to ISA 315 (Revised 2019) - Inquiries of management and TCWG (Enhance documentation requirements)

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

whether the audit documentation requirements should be enhanced in ISA 240 particularly on inquiries of management, TCWG or others in the entity, their consequences on the audit approach and on the assessment by the auditor of the appropriateness of the entity's processes for identifying and responding to the risk of fraud;

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whether the audit documentation requirements should be enhanced in ISA 240 particularly on inquiries of management, TCWG or others in the entity, their consequences on the audit approach and on the assessment by the auditor of the appropriateness of the entity's processes for identifying and responding to the risk of fraud;

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\05 - Yes - Linkages to ISA 315 (Revised 2019) - Engagement team discussion (Focus on the broader aspects of the entity's system of internal control, oversight from TCWG, risks related to management override of controls and inherent risks)

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How risk assessment and risk responses focus on fraud risk factors, and whether the auditor, including during engagement team discussions regarding susceptibility for fraud and fraud risks, sufficiently focuses on the broader aspects of the entity's system of internal control, on the risks related to management override of controls and on inherent risks before delving into more specific fraud risks.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

A strong corporate culture committed to honesty and ethical behaviour may act as a deterrent to fraudulent financial reporting and, conversely, a weak corporate culture may give rise to increased risks of material misstatement due to fraud. We suggest the audit team discussion include consideration of how those charged with governance and management promote a culture of honesty and integrity; what policies they have to facilitate and encourage reporting of wrongdoing; and how they respond to any such reports.

4. Accounting Firms

BDO International Limited (BDO)

Some of the suggestions we received included:

Enhancing the rigor of engagement team discussion of fraud risks (including considering the timing of these discussions to ensure there was consideration throughout the engagement).

GTI

Instead, we are of the view that the focus of the auditor, as part of fraud brainstorming procedures, should be on who could be perpetrating fraud and the opportunities for them to do so, focussing on the control environment and the controls that management and those charged with governance have put into place to prevent or detect fraud. Where the auditor identifies a control weakness as a result of these procedures, it will provide the opportunity for the auditor to develop an appropriate response to address the control weakness.

PricewaterhouseCoopers (PWC)

Updated fraud risk factors, at an appropriately granular level, could provide a basis for a more focused discussion within the engagement team about the potential for fraud, tailored to the nature and circumstances of the entity. This could assist in promoting better identification of risks and more tailored responses that reflect the audit engagement in question, taking into account the entity's system of internal control, to help mitigate the potential risk of generic, untailored risks and responses. We also believe there is merit in exploring the benefits of changes regarding the engagement team discussion being proposed by the UK FRC in this area. This includes, for example, more specificity in the standard regarding the engagement team discussion, including an exchange of ideas among engagement team members about fraud risk factors such as incentives for management or others within the entity to commit fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\06 - Yes - Linkages to ISA 315 (Revised 2019) - Engagement team discussion (Determine if there is a need to have another fraud brainstorming meeting later in the audit to confirm that identified and assessed fraud risks remain appropriate)

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Fraud brainstorming meeting

ISA 240 would be enhanced by expanding the list of matters that auditors are required to cover in their meeting to discuss where the entity's financial statements may be susceptible to material misstatements due to fraud, including how fraud might occur. To emphasize that risk assessment is an iterative process that occurs during all phases of the audit, auditors should be required to determine if there is a need to have another fraud brainstorming meeting later in the audit to confirm that identified and assessed fraud risks remain appropriate.

Financial Reporting Council (FRC)

Discussion among the engagement team – specifying more matters to be covered in the discussion and adding more examples in the application material. Requiring that the engagement partner shall determine whether further discussion(s) among the engagement team be held at later stages in the audit to consider fraud risk factors that have been identified and the implications for the audit.

4. Accounting Firms

BDO International Limited (BDO)

Some of the suggestions we received included:

Enhancing the rigor of engagement team discussion of fraud risks (including considering the timing of these discussions to ensure there was consideration throughout the engagement).

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\07 - Yes - Linkages to ISA 315 (Revised 2019) - Engagement team discussion (Require attendance of specialists engaged in the audit)

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Finally, specialists engaged in the audit should be required to attend fraud brainstorming meetings. We were surprised to learn in our thematic review that specialists engaged by the engagement team only participated in the fraud brainstorming meeting in two thirds of audits inspected. Specialists' perspectives are relevant to these discussions because of their involvement in complex areas of the audit, including accounting estimates with elevated levels of estimation uncertainty and subjectivity that are particularly susceptible to fraud.

6. Member Bodies and Other Professional Organizations

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements especially in regard to the audit of public interest entities. The enhancements should be made especially in regards to the audit of risky areas such as revenue, expenditure and assets. The auditors should always endeavor to critically audit the clients' financial reporting policies and controls when investigating any material misstatements due to fraud. The auditors may consider engaging a forensic specialist in engagement team discussion and/or engage the specialist to perform additional procedures on areas that may lead to material misstatements.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\08 - Yes - Linkages to ISA 315 (Revised 2019) - Understanding the entity, its environment and applicable financial reporting framework (More emphasis in the context of fraud)

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Risk Assessment Procedures and Related Activities

Findings from our report on recent inspections indicate that auditors are poor at identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. Practically, the greater challenge is that the risks and, consequently, misstatements due to fraud are not identified by the engagement team, to begin with. If risks are identified and understood, responding appropriately to the risk and, thus, identifying the misstatement due to fraud is at least possible. If auditors fail to identify and understand the risks, the same gap persists, even if procedures to respond to fraud are expanded.

The inspection report also identifies “obtaining and documenting a thorough understanding of the entity, its environment and information systems” as a success factor to appropriate risk identification. The standard does not emphasise enough the importance of this assessment and how this impacts the auditor’s fraud procedures.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

There is an opportunity for all involved - management and boards, auditors and regulators - to focus more on corporate culture and behaviours to support fraud detection. Appropriate risk identification and in-depth knowledge of the entity, its industry and the environment it operates in are required to observe fraud-indicating red flags and feed into a fraud risk assessment process, and it is unrealistic to expect the auditor alone can be responsible for all of these aspects.

Malaysian Institute of Accountants (MIA)

Understanding of the entity and its environment and the entity’s system of internal control

Enhancing ISA 240 to draw out how the fraud risk identification and assessment process should be integrated with the enhanced risk assessment process for the financial statements as a whole.

4. Accounting Firms

Ernst and Young (EY)

ISA 315 (Revised 2019)

The understanding of the entity and its environment and the entity’s system of internal control forms the auditor’s primary source of information for identification of risks of material misstatement, whether due to fraud or error. ISA 315 (Revised 2019) includes several enhancements that are directly relevant and beneficial to the auditor’s identification of fraud risks. Although some conforming and consequential amendments were made to ISA 240 as a result of the revisions to ISA 315, we believe more can be done to further enhance ISA 240 to draw out how the fraud risk identification and assessment process is integrated with the enhanced risk assessment process for the financial statements as a whole. We have the following specific suggestions:

Emphasizing that information from the auditor’s procedures regarding acceptance or continuance of the client relationship or the audit engagement may include information directly relevant to the identification of fraud risks

Explaining the importance of a robust understanding of the entity and its environment to the identification of risks of material misstatement due to fraud and expanding on how the understanding of the elements of the business model (as outlined in Appendix 1 of ISA 315 (Revised 2019)) can give rise to fraud risk factors

6. Member Bodies and Other Professional Organizations

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements especially in regard to the audit of public interest entities. The enhancements should be made especially in regards to the audit of risky areas such as revenue, expenditure and assets. The auditors should always endeavor to critically audit the clients' financial reporting policies and controls when investigating any material misstatements due to fraud. The auditors may consider engaging a forensic specialist in engagement team discussion and/or engage the specialist to perform additional procedures on areas that may lead to material misstatements.

Institute of Singapore Chartered Accountants (ISCA)

More robust risk assessment requirements and emphasis on understanding the entity and its environment

The IAASB's efforts in issuing ISA 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment is timely to address some of the gaps in the existing standard.

We note that ISA 315 (Revised 2019) stresses the importance of exercising professional skepticism. However, this in itself may not be sufficiently robust to direct auditors towards obtaining a robust understanding of the entity and its environment. This could still result in a "light touch" approach where auditors would obtain a basic understanding of the entity for the purpose of complying with the standard, with the intention of focusing mainly on substantive procedures.

In such "light touch" approach, junior members of the audit engagement team are usually tasked to obtain an understanding of the entity via a checklist of considerations with only the entity's finance personnel, which limits the efficacy of the risk assessment process. In our view, in order to obtain a meaningful understanding of the entity, in addition to engaging with the entity's finance team, the auditors need to engage with senior personnel from other relevant business units of the client's organisation.

Some companies have enterprise risk management frameworks that describe key risk indicators, which could potentially be helpful towards such understanding. The seniority and areas of responsibility of the personnel whom the auditors engage with would enhance the quality of insights gained towards understanding the entity. Correspondingly, senior audit engagement team members, including the engagement partner, will need to be sufficiently involved in the process. In this regard, ISA 315 should include explicit requirements with the clear objective of achieving a robust understanding of the entity and its environment. One example would be to stipulate the manner in which this process should be performed and how it should be documented.

While we understand that the auditing standards are meant to be principles-based and scalable for audits of entities of varying sizes, the application of professional skepticism will improve from more robust and specific requirements in the areas of understanding the entity and its environment, together with a critical identification of risk indicators. This in turn will contribute towards higher audit quality.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\09 - Yes - Linkages to ISA 315 (Revised 2019) - Understanding the entity's RAP and the entity's process to monitor the system of internal control (More emphasis in the context of fraud)

4. Accounting Firms

Ernst and Young (EY)

Clarifying that the auditor's understanding of the entity's risk assessment process and monitoring process includes how these processes address fraud risks, as well as any consequences of the evaluations of these components in the context of ISA 240

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

We believe the recent improvements to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, could assist auditors in performing a more robust consideration of management's tone at the top, risk assessment process, and inherent risk factors, such as susceptibility to misstatement due to management bias and other fraud risk factors. The revised standard provides additional application guidance that more clearly describes the objective of the requirements (i.e., 'what' needs to be done) and considers the auditor's use of technology (automated tools and techniques) which may be used to enhance risk assessment. Similarly, structured application guidance related to potential fraud risk identification, both internal to the entity and from external sources (including but not limited to cybersecurity-related risks at third party service organizations) may achieve the objectives of narrowing both the Performance and Evolution Gaps. For example, an increased focus on understanding the processes and internal controls management and those charged with governance have established to address allegations of fraud raised by employees or other parties (e.g., whistleblower or ethics hotlines) can inform the auditor's risk assessment. This also may help the auditor to form a view as to whether non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) may be indicative of a bigger issue, without necessarily expanding the auditor's responsibilities to design and perform specific procedures with regard to misstatements that are not material. In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\10 - Yes - Linkages to ISA 315 (Revised 2019) - Understanding the information system and communication (More emphasis in the context of fraud)

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Risk Assessment Procedures and Related Activities

Findings from our report on recent inspections indicate that auditors are poor at identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. Practically, the greater challenge is that the risks and, consequently, misstatements due to fraud are not identified by the engagement team, to begin with. If risks are identified and understood, responding appropriately to the risk and, thus, identifying the misstatement due to fraud is at least possible. If auditors

fail to identify and understand the risks, the same gap persists, even if procedures to respond to fraud are expanded.

The inspection report also identifies “obtaining and documenting a thorough understanding of the entity, its environment and information systems” as a success factor to appropriate risk identification. The standard does not emphasise enough the importance of this assessment and how this impacts the auditor’s fraud procedures.

Specifically:

ISA 315 requires the auditor to obtain an understanding of the information system, including journal entries (standard versus non-standard). The standard does not expand on the details required to be understood to enable the auditor to identify instances of management override of controls, such as the integration between sub-ledgers and general ledgers, the sources of the types of different journal entries, as well as the access and authorisation rights of different individuals that post journal entries. Therefore, there is scope to link the requirements of ISA 315.18 with ISA 240.33 and to expand on the minimum requirements.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\11 - Yes - Linkages to ISA 315 (Revised 2019) - Understanding the control environment (More emphasis in the context of fraud)

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Requiring the auditor to adapt the nature, timing and extent of the fraud risk assessment procedures in response to their understanding of the control environment.

The standard does detail what the possible implications are for the audit or the auditor when governance surrounding the management of fraud risks is weak and/or the control environment does not support the prevention and detection of fraud, and what the impact of this is on the Requirements in ISA 240.

3. National Audit Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

We also think that more attention should be paid in the audit to culture and behavior in the entity as part of the control environment (‘soft controls’), especially related to ‘tone at the top’ in the audited entity.

4. Accounting Firms

Ernst and Young (EY)

We also have suggestions above that have a relationship to ISA 315 (Revised 2019) for the specific topics of corporate culture and third-party fraud on which the IAASB is specifically seeking feedback.

PricewaterhouseCoopers (PWC)

Actions that change behaviours are likely to have a more meaningful impact in achieving the desired outcomes than adding a new term. What seems more important is to reinforce key concepts that underpin critical behaviours, including:

Tone at the top and commitment to quality across the engagement team – conveying the importance of scepticism, and the need for more persuasive evidence the higher the assessed risk. The recently approved changes to ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019) may assist in that regard;

Bringing effective challenge to bear on the audit – linked to tone at the top, but empowering engagement teams to bring appropriate challenge to bear, and not accepting explanations at face value if they are not persuasive. Some of the measures we describe in our responses above relating to practical guidance around fraud schemes, updated fraud risk factors and involvement of specialists, and engagement team discussion, combined with relevant training, could support auditor awareness and provide the foundation for effective challenge.

Impact of corporate culture on fraudulent financial reporting and what, if any, additional procedures should be considered

We agree that corporate culture within an entity is important and support the changes recently made to ISA 315 (Revised 2019) with respect to evaluating the control environment. It is appropriate to allow those new requirements to settle before deciding if further action is needed.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

We believe the recent improvements to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, could assist auditors in performing a more robust consideration of management's tone at the top, risk assessment process, and inherent risk factors, such as susceptibility to misstatement due to management bias and other fraud risk factors. The revised standard provides additional application guidance that more clearly describes the objective of the requirements (i.e., 'what' needs to be done) and considers the auditor's use of technology (automated tools and techniques) which may be used to enhance risk assessment. Similarly, structured application guidance related to potential fraud risk identification, both internal to the entity and from external sources (including but not limited to cybersecurity-related risks at third party service organizations) may achieve the objectives of narrowing both the Performance and Evolution Gaps. For example, an increased focus on understanding the processes and internal controls management and those charged with governance have established to address allegations of fraud raised by employees or other parties (e.g., whistleblower or ethics hotlines) can inform the auditor's risk assessment. This also may help the auditor to form a view as to whether non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) may be indicative of a bigger issue, without necessarily expanding the auditor's responsibilities to design and perform specific procedures with regard to misstatements that are not material. In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

CPA Australia (CPAA)

As identified in response to question 1, requirements could be enhanced to include further work in responding to fraud risks when the control environment is weak or specific control weaknesses are identified. The current requirements focus on responses when control weakness creates opportunity for management override.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\12 - Yes - Linkages to ISA 315 (Revised 2019) - Understanding control activities (Identify or focus on controls designed to prevent or detect fraud)

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Prescribed risk assessment procedures

Although we support a principles-based approach to auditing standards, we believe the following procedures should be required as part of an auditor's fraud risk assessment:

Understanding the entity's whistleblower programs: We noted in our thematic review that 40 per cent of occupational fraud is detected through tips from employees, customers, vendors and other anonymous sources according to The Association of Certified Fraud Examiners' 2018 Global Study. Yet, we only identified auditors engaging with the entity's whistleblower program in about one quarter of audits inspected.

Committee of European Auditing Oversight Bodies (CEAOB)

Risk assessment procedures and related activities

The IAASB should draw clearer links between the auditor's responsibilities in respect of fraud and the auditor's understanding of the entity's system of internal control that the auditor is required to develop in accordance with ISA 315. A robust understanding of the management's process for identifying and responding to the risk of fraud in the entity enhances the auditor's assessment of the risks of material misstatement due to fraud. It also helps the auditor to better assess the risk of management override of controls. The importance of the assessment of internal control by the auditor should be reemphasized by the IAASB.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

Risk assessment procedures and related activities

The IAASB should draw clearer links between the auditor's responsibilities in respect of fraud and the auditor's understanding of the entity's system of internal control that the auditor is required to develop in accordance with ISA 315. A robust understanding of management's process for identifying and responding to the risk of fraud in the entity enhances the auditor's assessment of the risks of material misstatement due to fraud. It also helps the auditor to better assess the risk of management override of controls. The importance of the assessment of internal control by the auditor should be re-emphasised by the IAASB.

4. Accounting Firms

Ernst and Young (EY)

Clarifying that the auditor's required understanding of controls that address fraud risks includes any fraud risk management programs and controls that operate above the transactional level (e.g., whistle-blower hotlines, internal audit departments)

PricewaterhouseCoopers (PWC)

In the context of the auditor's understanding and evaluation of internal control, in accordance with ISA 315 (Revised 2019), ISA 240 could, for example, address whether the entity has designed and implemented

certain expected controls (for example those set out in the COSO Fraud Risk Management guide). Consideration could also be given to expanding the communication requirements to those charged with governance to explicitly refer to reporting of any identified significant deficiencies in that regard, in accordance with ISA 265.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

We believe the recent improvements to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, could assist auditors in performing a more robust consideration of management's tone at the top, risk assessment process, and inherent risk factors, such as susceptibility to misstatement due to management bias and other fraud risk factors. The revised standard provides additional application guidance that more clearly describes the objective of the requirements (i.e., 'what' needs to be done) and considers the auditor's use of technology (automated tools and techniques) which may be used to enhance risk assessment. Similarly, structured application guidance related to potential fraud risk identification, both internal to the entity and from external sources (including but not limited to cybersecurity-related risks at third party service organizations) may achieve the objectives of narrowing both the Performance and Evolution Gaps. For example, an increased focus on understanding the processes and internal controls management and those charged with governance have established to address allegations of fraud raised by employees or other parties (e.g., whistleblower or ethics hotlines) can inform the auditor's risk assessment. This also may help the auditor to form a view as to whether non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) may be indicative of a bigger issue, without necessarily expanding the auditor's responsibilities to design and perform specific procedures with regard to misstatements that are not material. In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements especially in regard to the audit of public interest entities. The enhancements should be made especially in regards to the audit of risky areas such as revenue, expenditure and assets. The auditors should always endeavor to critically audit the clients' financial reporting policies and controls when investigating any material misstatements due to fraud. The auditors may consider engaging a forensic specialist in engagement team discussion and/or engage the specialist to perform additional procedures on areas that may lead to material misstatements.

Kriton (KNL)

Making the requirements for identifying the internal control measures relevant to the audit more concrete, as regards risks of misstatement resulting from fraud.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\13 - Yes - Linkages to ISA 315 (Revised 2019) - Understanding control activities (Require evaluation of design and implementation of controls designed to prevent or detect fraud)

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Fraud risk assessments would be strengthened if auditors were required to test the design and implementation of whistleblower hotlines and to review complaints received through those hotlines.

Risk Assessment

Understanding management's process for identifying and responding to fraud risks

Effectively designed anti-fraud controls by management act as a strong deterrent to fraud. Conversely, poorly designed controls create opportunities for fraud to occur and to remain concealed. When obtaining an understanding of the entity and its environment, including the entity's internal controls, auditors are required to make inquiries of management regarding, among other things, management's process for identifying and responding to the risks of fraud in the entity. However, how can auditors be expected to understand management's process through inquiry alone? The standard should be strengthened to require auditors to evaluate the design and implementation of that process, including the related anti-fraud prevention and detection controls, to better understand whether the process is effectively designed to prevent/detect fraud.

Independent Regulatory Board for Auditors (IRBA)

Under the Requirements, it cross-refers, in general, to the requirements under ISA 315. However, it lacks specificity. For example:

There is no requirement to evaluate the design and implementation of management's process for identifying and responding to risks of fraud, including related internal controls. Such a requirement should be considered because it will enhance the auditor's understanding of the internal control environment and, therefore, drive better fraud risk assessment and response.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback about the auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

The AUASB consider fraud related to third parties an emerging issue that requires further attention. Even though third-party fraud (e.g. cybercrime) engagements are generally undertaken as a separate engagement from the financial statement audit, the point of convergence and impact on the financial statement audit and fraud risk assessment cannot be underestimated. The potential impact to an entity from cybercrime and the risk of fines/penalties, impact on business operations and cash flows and therefore asset values mean this should be assessed as part of the audit as part of the entity's risk assessment and internal controls evaluation under ISA 315.

Stakeholders generally agreed that this is a significant and growing area that many auditors would not be appropriately equipped to understand the risks. An auditor may be aware of cybersecurity fraud risks at a high level however may not necessarily know when to engage an expert or even adequately identify and rate the risks. We would support activities which consider further how the assessment of fraud controls at an entity is impacted by third party fraud related issues like cyber controls by both the entity and the financial statement auditor.

4. Accounting Firms

PricewaterhouseCoopers (PWC)

Irrespective of whether any expanded scope of audit were to require an opinion on internal control, we believe it is important that the auditor obtain a robust understanding of how management has identified and evaluated risks of fraud and of the related controls that have been designed and implemented by management to address such fraud risks. The recent changes to ISA 315 (Revised 2019) may assist in that regard, but further consideration could be given as to whether linkages to those new requirements would be appropriate in ISA 240.

6. Member Bodies and Other Professional Organizations

Pan African Federation of Accountants (PAFA)

Yes, PAFA supports the notion that as part of their planning process, auditors be required to evaluate and report on management's processes and controls to prevent and detect fraud, further to that, enhancements are required in the area of professional skepticism throughout the audit process

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\14 - Yes - Explore developing separate standard on assurance on internal controls over financial reporting (ICFR)

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Ultimately, it is our view that the future of the audit will involve management reporting on the strength of their internal controls related to fraud, and auditors providing assurance over those controls. There is some evidence that this requirement in the US under the Sarbanes-Oxley Act has had a positive effect in deterring fraud. Other jurisdictions around the world are also considering similar requirements. We recognize that the requirements for management, including related reporting, are outside the remit of the IAASB. Nevertheless, we encourage the IAASB to explore the benefits and constraints of developing an international standard for auditors to assess and report on internal controls over financial reporting.

Committee of European Auditing Oversight Bodies (CEAOB)

Level of involvement of the auditor regarding the entity's internal control related to fraud

The IAASB should examine the level of involvement of the auditor on the entity's internal control related to fraud. The extent (scope and depth) of those audit procedures should be consistent with the responsibilities of the entity's management with regard to internal control measures to prevent and detect fraud. All changes to legislations related to the management's responsibilities in this area should also be considered by the IAASB when examining the level of involvement of the auditor required (See also our comments in paragraph 17 regarding corporate rules).

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

Level of involvement of the auditor regarding the entity's internal control related to fraud

The IAASB should examine the level of involvement of the auditor on the entity's internal control related to fraud. The extent (scope and depth) of those audit procedures should be consistent with the responsibilities of the entity's management with regard to internal control measures to prevent and detect fraud. All changes to legislation related to management's responsibilities in this area should also be considered by the IAASB when examining the level of involvement of the auditor required (See also our comments in paragraph 16 regarding corporate rules).

3. National Audit Standard Setters

Malaysian Institute of Accountants (MIA)

Robust whistleblowing process and other enhanced procedures may help in deterring fraud in an entity more effectively. For example, introducing greater requirement for testing of internal control over financial reporting and increased transparency of related disclosures as required under the Sarbanes Oxley Act in the US may help to deter fraud in an entity. However, this enhancement may come with substantial increase in costs.

4. Accounting Firms

BDO International Limited (BDO)

Exploring whether users of financial statements (and TCWG) may want some form of reporting on internal controls (i.e., to identify potential gaps that could give rise to heightened fraud risks in an entity).

Deloitte (DTTL).pdf

Increased emphasis by regulators or listing exchanges on internal controls over financial reporting, including management's fraud risk assessment process, for listed entities may necessitate the development of additional requirements by auditing standard setters.

While audit procedures to assess the "design and implementation" of relevant controls are currently required by the ISAs, such requirements do not currently extend to obtaining evidence that such controls are operating effectively (aside from responding to risks of material misstatement where substantive procedures alone are not sufficient (as required by the ISAs) or for audits performed pursuant to standards of the PCAOB and certain other jurisdictions with internal control over financial reporting ("ICFR") requirements). Considering that management and TCWG hold the primary responsibility to prevent and detect fraud and that such prevention and detection requires controls, the effective design and operation of such internal controls are fundamental to accurate financial reporting. As noted in our response to Question 1, enhanced requirements for management and TCWG related to ICFR, including related to fraud such as anti-fraud programs and controls, coupled with certification backed by assurance from auditors, could effect change by driving the auditor to test operating effectiveness, not only as part of a control reliance strategy, but also as a means for reporting on an entity's ICFR. Should such regulation occur it would be appropriate for the IAASB to modify the auditing standards for consideration of such regulations. Some examples of implementation guidance include examples or case studies to provide enhanced direction to auditors regarding key tenants of auditing an entity's fraud risk assessment for effectiveness, specifically including enhanced understanding of the entity's tone at the top and highlighting participation of TCWG in evaluation and monitoring of antifraud programs and controls.

It is important to note that the advent of new technologies, from cloud computing to artificial intelligence, as well as changes in the cost and accessibility of these types of digital tools, have enabled entities to increasingly incorporate automation into the design of both business processes and control functions. The digitization of financial data and records, connection of supply chains to blockchain, and use of complex information systems have increased the number of areas where “substantive testing alone would not provide sufficient appropriate audit evidence” and expand the need and importance for auditors to closely evaluate the entity’s controls underpinning these areas. Implementation guidance which addresses the continuously rising effect of technology on the audit and heightens the auditor’s focus on internal control, including IT controls, related to these advancements would prove extremely helpful.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Enhance the responsibilities of management and those charged with governance to manage, and provide transparent reporting over how they have managed, business risks related to financial reporting (including fraud) and other areas which may be of interest to stakeholders. This could be achieved by some form of internal controls reporting, subject, where appropriate by assurance. Calls for such regimes have been made in both as per the Independent Review Report of Sir Donald Brydon (the Brydon report) and the recent Australian Parliamentary Joint Committee Inquiry in the regulation of auditing in Australia. We also recognise the cost of such reporting involved for smaller entities, so they need to be developed with appropriate consultation and consideration of which entities should be subject to such regimes.

CPA Australia (CPAA)

We note that other types of engagements are likely to be more effective in preventing and detecting fraud. An assurance engagement on the effectiveness of the entity’s internal controls over financial reporting is helpful in reducing fraud risks. However, more directly targeted at material and non-material fraud would be an assurance engagement on management’s assessment of fraud risks and their response.

Malaysian Institute of Certified Public Accountants (MICPA)

The importance of management having appropriate responsibilities for the identification and management of risks of fraud is evident. Creating a stronger framework of responsibility and reporting in respect of a company’s system of internal control could help improve the prevention and detection of fraud.

We therefore propose the introduction of a framework of responsibility and reporting in respect of an entity’s internal control relevant to financial reporting, including fraud-related controls. The framework would require a clear, public assertion from management/those charged with governance as to the design and operating effectiveness of the entity’s internal controls, which would be underpinned by:

A clearly communicated expectation of the level of rigour and diligence to be applied in making that assertion; and

an accountability mechanism with consequences for management/those charged with governance in the event of non-compliance.

Consideration can then be given to a requirement for the auditor to make a corresponding attestation on internal control and the assertion made by management/those charged with governance.

South African Institute of Chartered Accountants (SAICA)

The responsibility for identifying, detecting and preventing fraud sits primarily with management and not necessarily with the auditor. Internal controls over the financial reporting process are not, in themselves, designed to address fraud risks. Management have a responsibility to assess fraud risks and to design appropriate responses and controls to mitigate the fraud risks. There is room for enhancements to be made in the financial reporting frameworks to create more transparency on the procedures performed by management in relation to fraud and how they have responded to the fraud risk factors that they have identified. Enhanced reporting by management would clarify their responsibility for the internal control environment and give users of the financial statements an understanding of how they have discharged their responsibilities in relation to fraud in accordance with a clear framework. The auditor would then be required to perform a secondary function of assessing the procedures performed by management against this recognised framework. Therefore, SAICA's view is that the starting point for any enhanced requirements with regard to fraud should first be on the preparers before imposing additional requirements on the auditor. For example, entities should have updated fraud registers that the auditors could review as part of their planning procedures. Transparency should be made in the auditor's report about both the responsibilities of management and the auditor as they relate to fraud. This could assist in narrowing the knowledge gap.

The Institute for the Accountancy Profession in Sweden (FAR)

In order to answer this question, it is essential to know if there actually is a problem concerning the auditors work on fraud and if so how big this problem is, or if there only is a perceived problem because of the expectation gap. To take a position on the issue, an empirical basis is needed.

If the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements a cost benefit analysis should be carried out. What is the expected gain for the society and what is the expected increased cost for companies?

We believe that the starting point for the discussion concerning fraud should be the requirements placed on the companies. What are the responsibilities of the management and those charged with governance and what processes needs to be in place in order to prevent fraud? The auditor can check how these processes are complied with but cannot be expected to detect every occurrence of fraud.

Management and those charged with governance are responsible for preventing and detecting fraud and could also have a responsibility to report which actions they have taken to fulfil this obligation. The auditor can then make a statement about the accuracy of the report and communicate what work has been performed to reach the conclusion.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\15 - Yes - Linkages to ISA 315 (Revised 2019) - Identifying and assessing RoMM (Focus or more emphasis on fraud risk factors)

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How risk assessment and risk responses focus on fraud risk factors, and whether the auditor, including during engagement team discussions regarding susceptibility for fraud and fraud risks, sufficiently focuses on the broader aspects of the entity's system of internal control, on the risks related to management override of controls and on inherent risks before delving into more specific fraud risks.

Whether the extant requirement to assess fraud risks as significant risks, is understood correctly in practice, or whether its current application focuses too much on journal entry testing.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Understanding management compensation arrangements and analysts' expectations: CPAB recently hosted a roundtable to hear institutional investors' expectations of auditors related to fraud in financial statement audits. Participants commented that financial reporting frauds tend to cluster around financial metrics that are tied to management compensation. For listed entities, compensation arrangements for management are often tied to meeting analysts' expectations. Fraud risk assessments would be strengthened by requiring auditors to obtain an understanding of managements' compensation arrangements and the metrics that analysts are focused on for listed entities, when applicable.

Canadian Securities Administrators (CSA)

As discussed in section 1(a), the evolution gap suggests the IAASB should consider expanding requirements and enhancing procedures in the standard targeted at the identification of risks relating to fraud for better detection of detect fraud, subject to the cost-benefit considerations noted above.

Financial Reporting Council (FRC)

We agree that auditors could in general be better able to spot red flags that may be indicative of fraud and give rise to suspicion. Partly that is down to training, which to some extent could be addressed in a firm's quality management procedures.. However, the IAASB could also enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks, particularly where a suspicion of fraud arises.

We recommend that more emphasis be given to identifying and assessing fraud risk factors specific to the entity and its circumstances.

Independent Regulatory Board for Auditors (IRBA)

Over and above our views on the enhancements proposed under question 2a., we have identified the following areas where improvements to the standard can contribute to narrowing the expectation gap:

Characteristics of Fraud

There is scope for the standard to elevate and elaborate on circumstances that are likely to make the financial statements more susceptible to fraud (using insights obtained from recent corporate failures, especially academic analysis and research) through updating Appendix 1: Examples of Fraud Risk Factors.

The standard is not explicit around how the information obtained in ISA 315 informs the nature, timing and extent of further Requirements in paragraphs 13-25.

Furthermore, if we critically analyse the extant risk assessment procedures, there is emphasis on "inquiry" of management and those charged with governance. We challenge whether inquiry alone supports the appropriate identification of fraud risks, especially considering:

The inherent limitations on the auditor's ability to identify misstatements resulting from fraud and, in particular, management fraud.

Technological advances over time (e.g. data analysis or that a combined approach may be more informative than inquiry alone).

The nature, timing and extent of risk assessment procedures may not be equally sufficient in all engagement circumstances. For example, more robust risk assessment may be required where the control environment does not support the prevention and detection of material misstatement due to fraud, as opposed to where the control environment supports the prevention and detection of material misstatement due to fraud.

Therefore, we propose that risk assessment procedures be enhanced to include:

An explicit assessment of a set of minimum fraud risk factors, if present. For example:

An inspection of whistle-blower policies and processes and the impact on the audit in general, when these are not effectively operating; OR

In a complex group structure, where funds or fees are being moved inter-company without a clear business rationale, requiring the auditor to obtain an understanding of those transactions from management or those charged with governance and corroborating and critically assessing management's explanations.

National Association of State Boards of Accountancy (NASBA)

Yes, NASBA believes the IAASB should consider enhancements to standards to promote better understanding of the current standards and greater consistency in their execution. NASBA believes that evaluations related to fraud should be risk-based. The recent update to ISA 540 was structured to provide guidance on risk assessment (ISA 315) and response (ISA 330) for issues specific to accounting estimates. Likewise, ISA 240, The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, could address issues specific to fraud risk in the context of ISA 315 and 330. For example:

Not necessarily presuming that revenue is an area of fraud risk but examining why and how in order to inform responsive procedures; and

Determining how and in what instances journal entries present fraud risks so that testing can be responsive to those factors.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

improvements on the requirements around gaining an understanding on where fraud could occur (practical case studies) – identifying fraud risk factors and not just in the area of revenue recognition and/or journal entries;

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

In line with our comments in the body of the letter, the IAASB should undertake an evidence-based analysis before considering whether enhanced or more requirements with regard to fraud ought to be introduced in an audit of the financial statements. However, we do believe that it may be worth exploring three issues in particular as a basis for this: 1. Whether the connection between fraud risk factors and the assessment of misstatement risk at the financial and assertion levels is adequate, 2. Whether more clarity could be given as to when indications for material misstatements due to fraud in the financial statements are strong enough for auditors to need to take further measures, and 3. When auditors may need to be required to undertake forensic measures due to the risk of material misstatement in the financial statement due to fraud.

Japanese Institute of Certified Public Accountants (JICPA)

The IAASB should determine whether to enhance the requirements. Specifically, we recommend that the following areas should be thoroughly considered, which are included in the “Standard to Address Risks of Fraud in an Audit” (hereinafter referred to as the “Standard to Address Risks of Fraud”) that have already been introduced in an audit of financial statements of publicly traded companies in Japan.

Enhancing and adding requirements depending on circumstance in relation to fraud

It should be clarified that auditors must differentiate responses depending on the differences in circumstances in relation to fraud, when designing and performing audit procedures to respond to the risks of material misstatement due to fraud. For example, the standard may differentiate the circumstances in relation to fraud as follows:

Circumstances that indicate the possibility of a material misstatement due to fraud are not identified (normal circumstances);

Circumstances that indicate the possibility of a material misstatement due to fraud are identified (Standard to Address Risks of Fraud section II paragraph 10); and

After evaluating the identified circumstances that indicate the possibility of a material misstatement due to fraud, the auditor determines that a suspicion of a material misstatement due to fraud exists (Standard to Address Risks of Fraud section II paragraph 12)

Since the responses to risks of material misstatement due to fraud and the level of professional skepticism vary significantly depending on the circumstances in relation to fraud, we believe that such differentiation of circumstances are useful. When an auditor determines that a suspicion of a material misstatement due to fraud exists, we believe that it would be effective to require the auditor to exercise increased professional skepticism and perform more in-depth audit procedures.

Royal Netherlands Institute of Chartered Accountants (NBA)

Furthermore, the connection between revised ISA 315 and ISA 240 might be reconsidered. Although the inherent risk factors in revised ISA 315 do include fraud, the importance thereof could be stressed. Finally, It should also be investigated whether clear agreements between all parties involved can be made Management and those charged with governance are responsible for the control of fraud risks and have to play their role. For fraud where management is involved, those charged with governance should act.

4. Accounting Firms

Ernst and Young (EY)

Providing guidance on the application of the fraud triangle (i.e., incentives/pressures, opportunities and rationalization) as a “lens” on the evidence obtained from risk assessment procedures to provide a framework for the auditor to objectively consider fraud risk factors, which would also support the auditor appropriately exercising professional skepticism

PricewaterhouseCoopers (PWC)

Fraud risk factors and engagement team discussion

Consistent with the goals of ISA 315 (Revised 2019), drawing attention to the auditor’s consideration of management’s tone at the top and risk assessment process, together with the auditor’s well-reasoned risk

assessment, may be helpful to reinforce consistent auditor behaviour. In addition to what we describe in our response to question 1 with respect to fraud schemes, ISA 240 (Revised) could be updated to better reflect fraud risk factors/considerations relevant to the modern business environment, including how technology may be used to perpetrate fraud. The IAASB may find that leveraging experience of fraud specialists to inform updates to the ISAs or other implementation guidance could be useful. In order to develop changes that will remain appropriate over a longer period of time, there will likely be a need to balance any changes contemplated to the body of the standard with supplementary guidance. Supplementary guidance can be updated more frequently to reflect emerging fraud schemes and considerations related to evolving technology.

RSM International Limited (RSM)

Extant ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, does not in our view, require extensive revisions and we also consider that the introduction of inherent risk factors in ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment, should improve the consideration of fraud in the risk assessment process.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

Some or all of the fraud risk factors found in Appendix A of ISA 240 could be move to the body of the standard to elevate their importance.

The auditor's primary objective with regard to fraud in an audit of financial statements is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. In our view, this objective aligns to the scope of the financial statement audit and existing requirements properly support its achievement.

We are supportive of recent enhancement to elevate the consideration of fraud risks in revisions to ISA 315. It is also recommended that auditing standards be further modernized given the pervasive impact of digitalization. For example, presumptions that records and documents are genuine may require revision to reflect the digital environment in which documents are created and maintained.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

We believe the recent improvements to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, could assist auditors in performing a more robust consideration of management's tone at the top, risk assessment process, and inherent risk factors, such as susceptibility to misstatement due to management bias and other fraud risk factors. The revised standard provides additional application guidance that more clearly describes the objective of the requirements (i.e., 'what' needs to be done) and considers the auditor's use of technology (automated tools and techniques) which may be used to enhance risk assessment. Similarly, structured application guidance related to potential fraud risk identification, both internal to the entity and from external sources (including but not limited to cybersecurity-related risks at third party service organizations) may achieve the objectives of narrowing both the Performance and Evolution Gaps. For example, an increased focus on understanding the processes and internal controls management and those charged with governance have established to address allegations of fraud raised by employees or other parties (e.g., whistleblower or ethics hotlines) can inform the auditor's risk assessment.

This also may help the auditor to form a view as to whether non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) may be indicative of a bigger issue, without necessarily expanding the auditor's responsibilities to design and perform specific procedures with regard to misstatements that are not material. In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

Yes

The areas proposed to review its requirements are: risk detection in measurement and valuation of financial and non-financial assets, corruption and bribery.

Faced with serious and well-founded suspicion of fraud, the performance of a fraud investigation auditor should be considered, in audits for listed companies and public interest entities where these definitions exist.

Institute of Chartered Accountants in England and Wales (ICAEW)

Further acknowledgement of the risks posed by complexity in IT systems is warranted. The recently revised ISA 315 refers to complexity as a risk factor in many areas but only scratches the surface of the issue. Complexity in IT is a major risk factor in many larger audits and regulatory audit monitoring reports refer to this issue in the context of over-reliance on untested systems.

Institute of Singapore Chartered Accountants (ISCA)

Through our engagement with key stakeholders, we found unanimous agreement that, while auditors are not expected to purposefully sniff out all types of fraud, it is the responsibility of auditors to detect fraud that has a material impact on the financial statements.

This is consistent with paragraph 5 of ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements which already requires the auditor to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

However, we note a rather heavy reliance on inquiries of management for the purpose of risk assessment procedures in ISA 240, which could potentially lead to a situation of overreliance on management representation. In addition to the comments and suggestions in our response to Question 1 above, some proposals are as follows:

Senior management fraud

While paragraph 31 of ISA 240 recognises management override of controls as a significant risk, there appears to be few specific requirements or guidance in this regard. We are of the view that the current mandatory procedures under paragraph 32 of ISA 240 such as review of journal entries, while needed, might not be sufficient in the current environment.

In this regard, the IAASB could look into introducing procedures akin to a 'culture audit'. For instance, one key aspect which we believe warrants increased emphasis in audits of financial statements is an understanding over management compensation schemes and Key Performance Indicator-setting. Remuneration is a key driver behind management's actions and decisions, and this deserves an increased focus by the auditor for an effective risk assessment process over fraud.

Kriton (KNL)

Implementing the principle of 'spectrum of inherent fraud risks', analogous to ISA 315 and ISA 540.

Including a concrete step-by-step plan for the activities that follow the identification of a fraud risk factor, a fraud signal and suspicion of fraud, respectively.

Making the requirements for the fraud risk analysis more concrete. Examples include identifying fraud risks, regardless of materiality and any relevant internal control, subsequently assessing the inherent fraud risk and evaluating the significance.

Mexican Institute of Public Accountants (IMCP)

To require, through professional standards, the participation of more experienced personnel in the process of identifying areas more prone to fraud risk, in the documentation of the fraud risk identification, and in the design and execution of procedures addressing such risk. This should be applicable for any audit work, emphasizing audits of listed companies, public interest companies or those in which the risk profile so requires.

New York State Society of CPAs (NYSSCPA)

We think the upgrades to be made in ISA 315 will likely provide better focus and evaluation of risk. Many firms' methodologies ask their auditors to designate inherent and control risks with fraud risk characteristics, based on characteristics of the entity being audited. Other firms isolate their fraud risk evaluations at the account/assertion level as a separate exercise. Properly applied, both approaches can be effective.

8. Academics

Auditing Standards Committee of the Auditing Section of the American Accounting Association (ASC)

In summary, when it comes to fraudulent financial reporting and auditing, research suggests that:

The CEO and CFO are the most likely perpetrators of fraudulent financial reporting.

Fraudulent financial reporting is most likely to involve revenue misstatements, and computer hardware and software is the most common specialized industry setting for fraudulent financial reporting.

Fraudulent financial reporting is associated with weak corporate governance and weak entity-level controls.

Auditors often have incentives not to be skeptical.

Auditors sometimes document fraud red flags and fail to follow up adequately.

The fraud triangle places relatively little emphasis on the person committing fraud.

Auditors who use a fraud diamond practice aid (which includes a focus on the CEO's capability to commit fraud) assess fraud risk higher than those who use a fraud triangle practice aid.

There are promising fraud prediction models that can highlight higher-risk situations.

Based on the research findings, we believe that auditor requirements related to fraud should call attention to the role of the CEO and CFO, revenue misstatements, technology companies, governance and internal control strength, auditor disincentives to be skeptical, risks of auditors documenting but not pursuing fraud red flags, the impact of assessing management's capability to commit fraud, and the potential to statistically

predict fraud risk. Such auditor focus can help to address the performance and evolution gap components of the expectation gap.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\16 - Yes - Linkages to ISA 315 (Revised 2019) - Revision of risk assessment

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

For these reasons, we remain supportive of the existing requirements in ISA 240 related to maintaining professional skepticism throughout the audit and other requirements in the ISAs for auditors to revise their risk assessments when necessary and to obtain more persuasive evidence the higher the assessed risk of material misstatement. We also recommend that the IAASB continue to monitor the implementation of IESBA's recent revisions to the Code that require the professional accountant to have an "inquiring mind." The IAASB also could consider whether the audit evidence project recently approved by the Board represents an opportunity to further enhance the focus on professional skepticism in the auditor's evaluation of sufficient appropriate evidence.

In our view, the effectiveness of any possible actions by the IAASB, including changes to the requirements in ISA 240, will need to be considered against the different components of the expectation gap explained in the Discussion Paper.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\17 - Yes - Linkages to ISA 315 (Revised 2019) - Not biased towards corroborative or contradictory evidence

4. Accounting Firms

PricewaterhouseCoopers (PWC)

Avoiding bias when seeking audit evidence – designing and performing 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. This principle has already been emphasised in the recent revisions of ISA 540 and ISA 315.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\18 - Yes - Linkages to ISA 315 (Revised 2019) - Emphasis on professional skepticism

4. Accounting Firms

MNP LLP (MNP)

The revised ISA's continue to emphasize professional skepticism within the standards such as ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. We believe that IAASB should continue to emphasize professional skepticism and revise auditing standards to ensure that the standards foster a professionally skeptical mindset, such as the requirement to "stand-back" and evaluate all audit evidence obtained in forming conclusions.

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

Suspicious mindset

The 'neutral mindset' currently demanded offers too little guidance to identify fraud risks and to evaluate audit evidence critically enough. As stated in §1.2, we believe that the knowledge and skills of the auditor must be increased. This is necessary to be able to adequately identify and assess fraud risks. In the case of identified fraud risks, auditors should be more suspicious of the authenticity and reliability of audit evidence obtained. The audit evidence obtained must clearly show how the auditor has implemented the suspicious mindset. We are also in favour of tightening the requirements for professional scepticism throughout the audit process, in accordance with revised ISA 315 and ISA 540. In addition, the introduction of the stand-back principle in ISA 240, as well as the inclusion of professional scepticism in relation to fraud risks as a mandatory point of attention in internal (engagement) quality assurance reviews, are in our opinion necessary. This applies to all audit engagements.

South African Institute of Chartered Accountants (SAICA)

If the IAASB were to introduce the concept of a "suspicious mindset", clarity would be required as to what stage of the audit engagement this should be applied in relation to ISA 240. Specifically, clarity is needed around whether this should be at the stage where the auditor is in the process of identifying the fraud risk factors or at the stage where the auditor is designing and implementing the appropriate response to the risk factors. Audit engagements are by their nature risk-based engagements and auditors would be required to apply professional scepticism in a manner commensurate with their understanding of the entity and the risk assessment procedures performed. Furthermore, the auditor is required to apply professional scepticism throughout the engagement, and the risk assessment and responses re-designed if the auditor becomes aware of matters later in the audit that would have changed the assessments performed earlier. Therefore, in light of this, SAICA supports the concept of professional scepticism rather than the introduction of the concept of a 'suspicious mindset'. The IAASB may explore other enhancements to the ISAs that emphasise the need to exercise professional scepticism in respect of fraud in an audit engagement. An example, could include introducing a 'stand back' requirement to consider all evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\19 - Yes - Linkages to ISA 315 (Revised 2019) - Integration of ISA 240 with ISA 315

4. Accounting Firms

GTI

Integration of ISA 240

We are of the view that some of the operational issues related to ISA 240 primarily stem from the fact that it is not integrated with ISA 315 (Revised). Incorporating fraud requirements into the relevant standard(s) to which the requirement relates may provide greater clarity on how it is to be incorporated into a risk assessment process and in the performance of an audit. From the perspective of developing a cohesive and practical audit methodology it is extremely difficult to operationalise ISA 240 in a meaningful way into the risk assessment process.

Q2a.1-04-07 - Yes - Linkages to ISA 315 (Revised 2019) - Risk assessment\20 - Yes - Linkages to ISA 315 (Revised 2019) - General comment

4. Accounting Firms

Mazars (MAZ)

No. We believe the standards are adequate to reach the objective of assessing the risk of material misstatements due to fraud. We believe that keeping a risk-based audit approach is necessary for the auditor to adapt under the different facts and circumstances and to avoid check-the-box behaviour and remain skeptical throughout the audit. There are things that could be done, however, that would aid the auditor in performing their responsibilities relate to fraud, including:

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

The articulation between ISA 240/ISA550 and the recently revised standards ISA 315 and ISA 540 could be improved.

Q2a.1-04-08 - Yes - Linkages to ISA 320 - Materiality in planning and performing the audit\01 - Yes - Linkages to ISA 320 - Assess qualitative aspects of materiality in the context of fraud

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Whether the standard provides sufficient guidance to auditors on assessing the qualitative and quantitative aspects of materiality in the context of fraud.

3. National Audit Standard Setters

Korean Institute of Certified Public Accountants (KICPA)

Fraud: Basis of materiality judgements on frauds and judgments that it would be necessary to perform additional fraud audit procedures due to the occurrence of suspicious frauds or suspicions, continuous two-way communications on what is going on in forensics when forensics or the appointment of external inspection experts is demanded to the TCWG

Malaysian Institute of Accountants (MIA)

As mentioned in our response to Question 1(b), to make a substantial change, all stakeholders which includes those charged with governance (TCWG), regulatory bodies as well as auditors in the ecosystem must be involved as enhancements to the ISAs alone and re-defining the responsibilities of the auditors will not have a substantial effect on the expectation gap.

Notwithstanding the above, we believe that auditors should evolve in how they perform audits and there should be enhanced requirements with regards to fraud in narrowing the expectation gap. However, any enhancements to be done should be within the capability of the auditors and in accordance with the objectives of the financial statement audits under the ISAs.

We are supportive of the IAASB looking into revising the ISAs to provide auditors with a stronger framework to support the detection of fraud. We believe it is critical that the auditor has an end-to-end view of fraud risk

across the audit, from risk assessment procedures through to designing and executing procedures to address risks of material misstatement due to fraud and consequential communications. With this in mind, we are supportive of the IAASB's project on fraud to develop enhanced connections between ISA 240 and the other ISAs, which could also involve the development of implementation guidance that can bring together and describe these connections in a single document. This would help to drive more consistent application of the current requirements.

Auditor responsibilities for non-material fraud

The existing ISA provides guidance where the auditors are required to assess the potential impact (quantitatively or qualitatively) of fraud risk identified or suspected (including non-material fraud). In many cases, the materiality of a matter identified may not be truly understood without further investigation. Therefore, we believe that ISA 240 requires enhancement to address auditor's responsibilities for non-material fraud.

Fraud is a matter that is often inter-related with non-compliance with laws and regulations and often constitutes an illegal act. Therefore, we encourage the IAASB to clarify within ISA 240 the relationship between responding to non-compliance with laws and regulations and responding to instances of fraud.

4. Accounting Firms

KPMG

We also suggest that the IAASB consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors, with examples, linked to ISA 320.10, that this is factored in when determining materiality for the financial statements as a whole, and for particular classes of transactions, account balances or disclosures, i.e. there is no 'separate' materiality threshold in respect of fraud.

Q2a.1-04-09 - Yes - Linkages to ISA 330 - Auditor's responses to assessed risks\01 - Yes - Linkages to ISA 330 - More robust responses to assessed fraud risks

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, at risk assessment and substantive levels and also at Engagement Quality Review level.

Financial Reporting Council (FRC)

We agree that auditors could in general be better able to spot red flags that may be indicative of fraud and give rise to suspicion. Partly that is down to training, which to some extent could be addressed in a firm's quality management procedures.. However, the IAASB could also enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks, particularly where a suspicion of fraud arises.

National Association of State Boards of Accountancy (NASBA)

Yes, NASBA believes the IAASB should consider enhancements to standards to promote better understanding of the current standards and greater consistency in their execution. NASBA believes that evaluations related to fraud should be risk-based. The recent update to ISA 540 was structured to provide guidance on risk assessment (ISA 315) and response (ISA 330) for issues specific to accounting estimates.

Likewise, ISA 240, The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, could address issues specific to fraud risk in the context of ISA 315 and 330. For example:

Not necessarily presuming that revenue is an area of fraud risk but examining why and how in order to inform responsive procedures; and

Determining how and in what instances journal entries present fraud risks so that testing can be responsive to those factors.

3. National Audit Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

The IAASB should determine whether to enhance the requirements. Specifically, we recommend that the following areas should be thoroughly considered, which are included in the "Standard to Address Risks of Fraud in an Audit" (hereinafter referred to as the "Standard to Address Risks of Fraud") that have already been introduced in an audit of financial statements of publicly traded companies in Japan.

Enhancing and adding requirements depending on circumstance in relation to fraud

It should be clarified that auditors must differentiate responses depending on the differences in circumstances in relation to fraud, when designing and performing audit procedures to respond to the risks of material misstatement due to fraud. For example, the standard may differentiate the circumstances in relation to fraud as follows:

Circumstances that indicate the possibility of a material misstatement due to fraud are not identified (normal circumstances);

Circumstances that indicate the possibility of a material misstatement due to fraud are identified (Standard to Address Risks of Fraud section II paragraph 10); and

After evaluating the identified circumstances that indicate the possibility of a material misstatement due to fraud, the auditor determines that a suspicion of a material misstatement due to fraud exists (Standard to Address Risks of Fraud section II paragraph 12)

Since the responses to risks of material misstatement due to fraud and the level of professional skepticism vary significantly depending on the circumstances in relation to fraud, we believe that such differentiation of circumstances are useful. When an auditor determines that a suspicion of a material misstatement due to fraud exists, we believe that it would be effective to require the auditor to exercise increased professional skepticism and perform more in-depth audit procedures.

The Standard to Address Risks of Fraud does not use the term "suspicious mindset." When identifying circumstances that indicate the possibility of a material misstatement due to fraud, however, the auditor shall exercise increased professional skepticism, determine whether there is any suspicion of a material misstatement due to fraud, and perform the audit procedures to address such a suspicion. We believe it is appropriate to require the level of professional skepticism to be raised in certain phases when the likelihood of fraud has become higher.

However, we do not agree that "suspicious mindset" be implemented as a basic stance of audits, requiring audit procedures to be performed based on the assumption that fraud exists in all circumstances. If audits were conducted on the assumption that fraud exists in all circumstances, the performance of audits might be hindered, such as difficulty in obtaining information during the course of audits, and the quality of audits would decline as a result.

In addition, we believe it is necessary to carefully consider whether it is appropriate to introduce the different term “suspicious mindset” in addition to “professional skepticism.” If the new different term is introduced even though the term “professional skepticism” already exists in ISAs, it may cause confusion.

4. Accounting Firms

GTI

Focus of the standards

We note that the ISAs are written in terms of risk of material misstatement arising from fraud and from error. The way in which these risks might arise, and manifest are very different, with fraud usually requiring a higher degree of sophistication, and as such, may need to be considered and assessed differently. We recommend that consideration be given as to whether it would be appropriate for the requirements in the standards to be drafted in a manner that requires separate consideration of the risk of material misstatement due to fraud and the risk of material misstatement due to error. In this respect, we would recommend that consideration is given to reassessing ISA 330 and how the responses to the assessed risks of material misstatement could be impacted based on the underlying cause of the risk of material misstatement.

MHA Macintyre Hudson (MHA)

Any revisions to ISA 240 should be aligned further with ISA 315 (Revised) with emphasis on risk assessment procedures to identify fraud, how technology may be used in identifying and responding to risks of fraud, as well as setting out clearer responses when potential fraud has been identified.

We believe that ISA 240 should place greater emphasis on financial reporting fraud, including considerations as to the auditor's response to potential frauds relating to accounting for complex estimates and other transactions such as off-balance sheet financing.

6. Member Bodies and Other Professional Organizations

American Institute of Certified Public Accountants (AICPA)

Response: If the auditor identifies a misstatement, ISA 240 requires the auditor to evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor is required to evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management's representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. Therefore, ISA 240 and ISA 260 (Revised), Communication With Those Charged With Governance, already consider non-material fraud. We recommend the IAASB consider the interplay between ISA 240 and ISA 330 as it relates to misstatements of the financial statements relating to fraud. We also note that ISA 240 appears to focus mostly on fraudulent financial reporting, and we encourage the IAASB to consider whether there is a need for further guidance about misappropriation of assets. Such misappropriations may become material when aggregated over several periods.

Q2a.1-04-09 - Yes - Linkages to ISA 330 - Auditor's responses to assessed risks\02 - Yes - Linkages to ISA 330 - Add stand-back requirement (To evaluate all audit evidence obtained whether the assessment of, responses to, conclusion on, RoMM due to fraud remain appropriate)

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

Responses to the assessed risks - emphasising that, in obtaining and evaluating audit evidence regarding possible management bias in making accounting estimates, the auditor shall also comply with the relevant requirements in ISA (UK) 540. Adding a stand-back requirement to evaluate, taking into account all relevant audit evidence obtained, whether corroborative or contradictory, whether the assessments of the risks of material misstatement at the assertion level due to fraud remain appropriate; and sufficient appropriate audit evidence has been obtained regarding the assessed risks of material misstatement due to fraud; and conclude whether the financial statements are materially misstated as a result of fraud.

Q2a.1-04-09 - Yes - Linkages to ISA 330 - Auditor's responses to assessed risks\03 - Yes - Linkages to ISA 330 - Obtain and analyze entire journal entry data set through use of data analytics, CAATs

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Public Interest Entities have millions or even hundreds of millions of journal entry data and most postings are now automated. So, we would challenge whether it is feasible to get sufficient appropriate audit evidence over the risk of management override of controls in the absence of being required to obtain and analyse the entire journal entry data set (through data analysis) in these circumstances. This is in line with ISA 315.A94, which reads: "When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of computer-assisted audit techniques."

Q2a.1-04-09 - Yes - Linkages to ISA 330 - Auditor's responses to assessed risks\04 - Yes - Linkages to ISA 330 - Test of controls (Determining factor in the auditor's choice of strategy)

6. Member Bodies and Other Professional Organizations

Institute of Singapore Chartered Accountants (ISCA)

Choice of audit strategy

The alignment of choice of audit strategy to audit quality is another important component towards achieving high audit quality.

The ISAs generally provide flexibility in the choice of audit strategy. For instance, paragraph A4 of ISA 330 The Auditor's Responses to Assessed Risks allows the auditor to determine that only substantive procedures are performed (fully substantive strategy) if the auditor finds testing of controls to be inefficient and therefore does not intend to rely on the operating effectiveness of controls. We note that the above allows the auditor to adopt an audit strategy based on efficiency, which may not always equate with audit quality. While we understand that the intention behind the flexibility may be to allow for scalability and application of the auditor's judgment, we notice that it may potentially lead to audit teams determining audit strategy based on factors such as resources, fees or time pressure, instead of audit quality.

Audit quality should be a key determination factor when the auditor decides on the audit strategy. A fully substantive strategy would not be able to highlight any lapses in key internal controls over financial reporting. Where there are such lapses, the risk of fraud in the financial statements would increase.

With efficiency in mind, audit teams might be inclined to adopt a fully substantive strategy. However, there may be situations where substantive procedures may not by themselves provide sufficient appropriate audit evidence, such as when checking the completeness of revenue.

In this regard, tests of controls may be more effective as the auditor might be able to identify lapses in key internal controls over financial reporting which might have led to fictitious or fraudulent transactions.

Accordingly, we recommend that IAASB relook into paragraph A4 of ISA 330 which allows for efficiency to be the determining factor in the auditor's choice of strategy. IAASB should require audit quality to be a key determinant when the auditor decides on the audit strategy to be employed.

Q2a.1-04-10 - Yes - Linkages to ISA 450 - Identified misstatements\01 - Yes - Linkages to ISA 450 - Enhance examples of misstatements arising from fraud

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Evaluation of Audit Evidence

ISA 240.36 states: "If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud."

As it pertains to distinguishing between whether an identified misstatement has occurred because of fraud or error, there is no application guidance in ISA 240.

ISA 450.A1 states that examples of misstatements arising from fraud are provided in ISA 240 and cross-refers practitioners to ISA 240.A1-A7. However, these example "characteristics of fraud" rely heavily on the auditor's ability to identify "intent", for example, "intentional omission", "intentional misapplication" and "overriding controls intentionally". In practice, it is very hard to establish a person's true "intentions".

As such, we believe that the enhancement of application guidance is required to better enable the auditor to identify misstatements that result from fraud and, in turn, design an appropriate response.

Q2a.1-04-11 - Yes - Linkages to ISA 500 - Audit evidence\01 - Yes - Linkages to ISA 500 - Inconsistency in, or doubts over reliability of, audit evidence (Clarify extant para. 11)

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How the reliability of audit evidence is required to be assessed and whether paragraph 11 of ISA 500 requiring additional procedures only when there are doubts about the reliability of information to be used, may, in practice undermine the auditor's assessment of the reliability of evidence.

Q2a.1-04-11 - Yes - Linkages to ISA 500 - Audit evidence\02 - Yes - Linkages to ISA 500 - Enhance guidance related to authenticity of documents

4. Accounting Firms

Ernst and Young (EY)

Although the use of technology is not included in the scope of the Discussion Paper, we encourage the IAASB to consider how technology can be used to obtain audit evidence directly from third parties (e.g., electronic confirmation services, open banking arrangements) and how tools, similar to those used by forensic specialists today, can assist the auditor in evaluating the authenticity of audit evidence obtained from the entity as well as from third parties (e.g., bank statements, contracts).

In addition to the above, we would also be supportive of clarifying the expected work effort related to evidence obtained from external sources. The requirement for the auditor to “consider” the relevance and reliability of information obtained from external information sources implies a relatively low work effort, which may not have a desired level of effectiveness as it relates to addressing the authenticity of audit evidence obtained from external sources.

ISA 500 Audit Evidence

We support the IAASB’s recently commenced standard-setting project on audit evidence and that the scope of the project includes whether fraud considerations are appropriately addressed in ISA 500. We believe a specific focus on enhancing the guidance related to authenticity of documents would be useful. With advances in technology, alterations to documents are difficult to detect in many circumstances. We note that the Exposure Draft of ISA (UK) 240 includes useful examples of conditions that indicate a document is not authentic or has been tampered with.

Q2a.1-04-11 - Yes - Linkages to ISA 500 - Audit evidence\03 - Yes - Linkages to ISA 500 - Increasing use of data analytics and other automated techniques in audits

4. Accounting Firms

RSM International Limited (RSM)

We would like to see the ISAs remain principles based, so the standards remain functional over the long-term to adapt and accommodate for new techniques and procedures as they are developed. However, we also agree that more explicit recognition in the application guidance of the ISAs of different techniques that are now used by auditors to detect fraud and more flexibility for building them into firms’ risk models. One area where this increased flexibility might be appropriate is the effect of the increasing use of data analytics and other automated techniques in audits. Auditors still struggle to fit these technological solutions to auditing into the current evidence gathering model of substantive analytics, tests of controls and tests of details. We believe the project the IAASB has begun to evaluate the extant standard ISA 500, Audit Evidence, can play an important role in these considerations.

Q2a.1-04-11 - Yes - Linkages to ISA 500 - Audit evidence\04 - Yes - Linkages to ISA 500 - Application of professional skepticism when assessing audit evidence

4. Accounting Firms

Mazars USA (MAZUSA)

While we do not recommend a change in the definition or the present concepts of professional skepticism, we do recognize the importance that it plays in the performance of a quality audit and the ability to identify potential or actual fraud through audit procedures. We also recognize that it can be a challenge to identify when and how to augment or adjust the planned audit approach based on the application of professional skepticism. Given the interplay between professional skepticism and obtaining sufficient appropriate evidence, we encourage the IAASB to consider whether the current audit evidence project should have, as one of their focuses, the application of professional skepticism when assessing audit evidence.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

For these reasons, we remain supportive of the existing requirements in ISA 240 related to maintaining professional skepticism throughout the audit and other requirements in the ISAs for auditors to revise their risk assessments when necessary and to obtain more persuasive evidence the higher the assessed risk of material misstatement. We also recommend that the IAASB continue to monitor the implementation of IESBA's recent revisions to the Code that require the professional accountant to have an "inquiring mind." The IAASB also could consider whether the audit evidence project recently approved by the Board represents an opportunity to further enhance the focus on professional skepticism in the auditor's evaluation of sufficient appropriate evidence.

Q2a.1-04-11 - Yes - Linkages to ISA 500 - Audit evidence\05 - Yes - Linkages to ISA 500 - Not biased towards corroborative or contradictory evidence

6. Member Bodies and Other Professional Organizations

Institute of Singapore Chartered Accountants (ISCA)

Contradictory audit evidence

Paragraph A1 of ISA 500 Audit Evidence highlights that audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. We believe that there could be further guidance on how auditors should deal with contradictory audit evidence and whether they may be expected to actively seek such contradictory audit evidence.

Given the plethora of information available in the public domain (which might be reliable or unreliable), it is becoming increasingly challenging for the auditor to decide whether to only deal with contradictory audit evidence which the auditor happens to obtain while performing other required procedures, or if the auditor needs to perform certain specific procedures to seek such contradictory audit evidence.

Q2a.1-04-12 - Yes - Linkages to ISA 505 - External confirmations\01 - Yes - Linkages to ISA 505 - Role of external confirmations in addressing fraud risks

4. Accounting Firms

Ernst and Young (EY)

We also encourage the IAASB to consider expanding on the role of external confirmations in addressing fraud risks. ISA 240 provides only brief acknowledgement through an example that external confirmations may be a response to fraud risk. Guidance in ISA 240 could be enhanced, or alternatively, ISA 505 could be enhanced to set stronger expectations for obtaining external confirmations in certain circumstances (e.g., existence of cash or other assets with higher assessed risks of material misstatement).

Q2a.1-04-13 - Yes - Linkages to ISA 540 (Revised) - Accounting estimates\01 - Yes - Linkages to ISA 540 (Revised) - Not biased towards corroborative or contradictory evidence

4. Accounting Firms

KPMG

We acknowledge the Board's commentary that, in order to avoid a bias for obtaining confirming evidence, the ISAs and financial reporting standards could be worded to place emphasis on negative rather than positive statements for management assertions, based on their research, which suggests that auditors are less likely to seek confirming evidence for negative statements. We believe it would be helpful to explore this approach, noting that ISA 540 (Revised) requires the auditor to design and perform their further 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. Similar changes are proposed in other ISAs, e.g. proposed ISA 600 (Revised) and therefore the aims of this proposal would be aligned with other ISAs.

PricewaterhouseCoopers (PWC)

Avoiding bias when seeking audit evidence – designing and performing 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. This principle has already been emphasised in the recent revisions of ISA 540 and ISA 315.

Q2a.1-04-13 - Yes - Linkages to ISA 540 (Revised) - Accounting estimates\02 - Yes - Linkages to ISA 540 (Revised) - Use stronger language (Para. A95 of ISA 540 (Revised))

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

A more pragmatic solution would be to use stronger language in the ISAs, such as challenge, question, and re-consider, to strengthen definitions and application guidance related to exercising professional skepticism. It is surprising to us that the concept of auditors challenging management only appears once in the ISAs. The reference is in the application guidance of ISA 540, Auditing Accounting Estimates and Related Disclosures, paragraph A95 which deals with situations when auditors identify changes in estimation methods, significant assumptions and the related data from prior periods.

Q2a.1-04-13 - Yes - Linkages to ISA 540 (Revised) - Accounting estimates\03 - Yes - Linkages to ISA 540 (Revised) - Management bias for complex accounting estimates

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Overall the AUASB and its stakeholders believe that the current version of ISA 240 remains adequate and fit for purpose and does not require a fundamental overhaul. The IAASB as part of its root cause analysis (through targeted research) of the drivers of the expectation gap can further evidence this position. It is the AUASB's view that the current requirements of ISA 240 are sufficient, and that the instances of material fraud which draw attention to the audit profession are a very small proportion of the total number of financial statement audits conducted internationally each year.

The issues our stakeholders identified are more about perceptions others have about the performance and evolution gap, and whether auditors are adequately trained in identifying material fraud.

Some areas highlighted for possible consideration by the IAASB for enhancement in ISA 240 include:

closer links to ISA 540 Auditing Accounting Estimates and Related Disclosures and management bias for complex accounting estimates;

4. Accounting Firms

RSM International Limited (RSM)

However, the structure of the current ISAs tends to lead to the compartmentalising of the consideration of fraud. Apart from the consideration of fraud for significant risks, the identification of fraud risks can still very much be seen as a stand-alone exercise, separate from the rest of the audit. Extant ISAs do refer to fraud risks, for example paragraph 32 of ISA 540 (Revised), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, states that "where there is intention to mislead, management bias is fraudulent in nature", but we would like to see an even more integrated and pervasive approach. This would encourage a new mindset in auditors and further embed the consideration of fraud risks into the audit such that a thread of addressing these risks flows through all of the ISAs.

Q2a.1-04-13 - Yes - Linkages to ISA 540 (Revised) - Accounting estimates\04 - Yes - Linkages to ISA 540 (Revised) - Emphasis on professional skepticism

4. Accounting Firms

MNP LLP (MNP)

The revised ISA's continue to emphasize professional skepticism within the standards such as ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. We believe that IAASB should continue to emphasize professional skepticism and revise auditing standards to ensure that the standards foster a professionally skeptical mindset, such as the requirement to "stand-back" and evaluate all audit evidence obtained in forming conclusions.

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

Suspicious mindset

The 'neutral mindset' currently demanded offers too little guidance to identify fraud risks and to evaluate audit evidence critically enough. As stated in §1.2, we believe that the knowledge and skills of the auditor must be increased. This is necessary to be able to adequately identify and assess fraud risks. In the case of identified fraud risks, auditors should be more suspicious of the authenticity and reliability of audit evidence obtained. The audit evidence obtained must clearly show how the auditor has implemented the suspicious mindset. We are also in favour of tightening the requirements for professional scepticism throughout the audit process, in accordance with revised ISA 315 and ISA 540. In addition, the introduction of the stand-back principle in ISA 240, as well as the inclusion of professional scepticism in relation to fraud risks as a mandatory point of attention in internal (engagement) quality assurance reviews, are in our opinion necessary. This applies to all audit engagements.

Q2a.1-04-13 - Yes - Linkages to ISA 540 (Revised) - Accounting estimates\05 - Yes - Linkages to ISA 540 (Revised) - Spectrum of inherent fraud risks

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

Implementing the principle of 'spectrum of inherent fraud risks', analogous to ISA 315 and ISA 540.

Q2a.1-04-13 - Yes - Linkages to ISA 540 (Revised) - Accounting estimates\06 - Yes - Linkages to ISA 540 (Revised) - General comment

4. Accounting Firms

Mazars (MAZ)

No. We believe the standards are adequate to reach the objective of assessing the risk of material misstatements due to fraud. We believe that keeping a risk-based audit approach is necessary for the auditor to adapt under the different facts and circumstances and to avoid check-the-box behaviour and remain skeptical throughout the audit. There are things that could be done, however, that would aid the auditor in performing their responsibilities relate to fraud, including:

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

The articulation between ISA 240/ISA550 and the recently revised standards ISA 315 and ISA 540 could be improved.

Q2a.1-04-14 - Yes - Linkages to ISA 550 - Related parties\01 - Yes - Linkages to ISA 550 - Address risks related to related party transactions and disclosures

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

While ISA 240 highlights the difficulties in detecting fraud involving collusion, it gives relatively little specific attention to third parties, the only reference in the requirements being in paragraph 36 which, if the auditor has identified a misstatement, requires the auditor to also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. ISA 550 identifies that an understanding of the entity's related

party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA 240 because fraud may be more easily committed through related parties. It would be helpful to include a cross reference to ISA 550 in ISA 240 to emphasise that in obtaining audit evidence regarding the risks of material misstatement due to fraud the auditor complies also with the relevant requirements in ISA 550.

3. National Audit Standard Setters

Malaysian Institute of Accountants (MIA)

Related parties

Enhancing the prominence in ISA 240 of the work performed to address risks related to related party transactions and disclosures as it relates to the auditor's responsibilities in relation to fraud.

4. Accounting Firms

Ernst and Young (EY)

In addition, the prominence in ISA 240 of the work performed to address risks related to related party transactions as it relates to the auditor's responsibilities for fraud could be enhanced.

Q2a.1-04-14 - Yes - Linkages to ISA 550 - Related parties\02 - Yes - Linkages to ISA 550 - Consider whether any revisions may be warranted to ISA 550 (vs. PCAOB standard)

4. Accounting Firms

Ernst and Young (EY)

ISA 550 Related parties

As part of the IAASB's consideration of the auditor's responsibilities for fraud, we encourage the IAASB to consider whether any revisions may be warranted to ISA 550. This may include a comparison analysis to the US PCAOB Auditing Standard 2410.

Q2a.1-04-14 - Yes - Linkages to ISA 550 - Related parties\03 - Yes - Linkages to ISA 550 - General comment

4. Accounting Firms

Mazars (MAZ)

No. We believe the standards are adequate to reach the objective of assessing the risk of material misstatements due to fraud. We believe that keeping a risk-based audit approach is necessary for the auditor to adapt under the different facts and circumstances and to avoid check-the-box behaviour and remain skeptical throughout the audit. There are things that could be done, however, that would aid the auditor in performing their responsibilities relate to fraud, including:

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

The articulation between ISA 240/ISA550 and the recently revised standards ISA 315 and ISA 540 could be improved.

Q2a.1-04-15 - Yes - Linkages to ISA 580 - Written representations\01 - Yes - Linkages to ISA 580 - Clarify that written representations do not relieve the auditor's responsibilities on fraud

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

The standards (e.g., ISA 580) should provide that, in any case, written representations by management do not relieve the auditor from the requirement to obtain sufficient and appropriate audit evidence, to avoid overreliance, by the auditor, on management representations.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

The standards (e.g., ISA 580) should provide that, in any case, written representations by management do not relieve the auditor from the requirement to obtain sufficient and appropriate audit evidence, to avoid overreliance by the auditor on management representations.

Q2a.1-04-15 - Yes - Linkages to ISA 580 - Written representations\02 - Yes - Linkages to ISA 580 - Extension of existing management representation on fraud

4. Accounting Firms

Deloitte (DTTL).pdf

Addition to the management representation letter

In its proposed revisions to ISA 240 (UK), the UK Financial Reporting Council suggests an extension of the existing management representation on fraud as follows: "They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud and that they believe they have appropriately fulfilled those responsibilities." If regulators and listing exchanges do not create laws and regulations requiring management to personally certify the effectiveness of internal control over financial reporting, a similar addition to the management representation letter in the ISAs may persuade management to perform additional procedures to ascertain the effectiveness of its system of internal control.

Q2a.1-04-16 - Yes - Linkages to ISA 600 (Revised) - Group audits\01 - Yes - Linkages to ISA 600 (Revised) - Fraud in the context of group audits

3. National Audit Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

We strongly recommend to perform a root-cause analysis first before changes are made to the ISAs. For some well-known fraud cases there might be some material available already. Lessons should be learnt and it should become clear how these fraud cases could have been prevented and detected earlier by the audit profession. Often international aspects seem to play a role in the well-known fraud cases and it seems worthwhile investigating whether the draft revised ISA 600 has appropriate responses to this aspect.

4. Accounting Firms

KPMG

We also suggest the inclusion of improved linkage to proposed ISA 600 (Revised), addressing frauds that arise at components and highlighting the importance of involvement of component auditors, given their

greater knowledge of the component environment, including local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/ practices. This may be especially important when the component is in a jurisdiction that is considered to be “higher risk”, because, for example, it involves a rapidly changing regulatory and business landscape, and is subject to heightened fraud risks.

PricewaterhouseCoopers (PWC)

Additional thought should also be given to addressing special considerations that apply in the context of a group audit in relation to the identification, assessment of, and response to, risks of material misstatement due to fraud in the group financial statements. Such considerations should also be a focus in finalising proposed ISA 600 (Revised).

Q2a.1-04-17 - Yes - Linkages to ISA 610 (Revised 2013) - Using the work of internal auditors\01 - Yes - Linkages to ISA 610 (Revised 2013) - Encourage use of internal auditors in understanding RoMM due to fraud

4. Accounting Firms

GTI

In circumstances where the entity has an internal audit function, we would also recommend that consideration be given as to whether there is a role for internal audit to assist auditors in this area. Requirements and guidance around the use of internal auditors could be enhanced to encourage the use of internal auditors in understanding the risks of material misstatement due to fraud. Internal auditors are subject to codes of conduct, training, competence and capability requirements and could serve as a useful resource, including in relation to knowledge they have obtained in performance of their internal audit responsibilities.

Q2a.1-04-18 - Yes - Linkages to ISQM 1 - Quality management at the firm level\01 - Yes - Linkages to ISQM 1 - Resources (Use of specialist, staff training)

4. Accounting Firms

PricewaterhouseCoopers (PWC)

Requiring the use of forensic or other relevant specialists and in what circumstances

The IAASB has recently finalised ISQM 1 and ISA 220 (Revised), which give emphasis to the importance of determining that the engagement team has the right resources to conduct the engagement. If proposing revisions to ISA 240, the IAASB could consider incorporating linkages back to these principles, including with respect to the firm's policies and procedures. We note that there is a range of specialist support that engagement teams can draw upon (commonly the starting point is the firm's risk management and methodology specialists). Engaging forensic specialists is often reserved for circumstances when addressing identified or suspected fraud.

6. Member Bodies and Other Professional Organizations

Institute of Directors in South Africa's Audit Committee Forum (IoDSA ACF)

The IAASB should also consider whether the auditor's mandatory training curriculum contains sufficient material on fraud, with regular updates around how these are perpetrated, to ensure that auditors are aware

and vigilant. Any increased requirements in this regard could be considered for incorporation into the work being done with the IAASB on the quality management standards of ISQM1.

Kriton (KNL)

We believe that audit firms - as part of the quality control system - should themselves determine what level of expertise is required for a particular set of circumstances (for example, simple, difficult, complex). Sometimes, the use of a forensic expert is desirable, but it is often sufficient for the audit firm to have persons with sufficient knowledge and experience to pay increased attention to fraud risk factors, fraud risks and indications of fraud during the audit. These persons are also able to initially take the lead if specific, forensic expertise is necessary. They are referred to as 'fraud experts' and we propose that the training, availability and deployment of fraud experts should be explicitly included in the quality control system.

Q2a.1-04-18 - Yes - Linkages to ISQM 1 - Quality management at the firm level\02 - Yes - Linkages to ISQM 1 - Tone at the top, firm culture

4. Accounting Firms

PricewaterhouseCoopers (PWC)

Actions that change behaviours are likely to have a more meaningful impact in achieving the desired outcomes than adding a new term. What seems more important is to reinforce key concepts that underpin critical behaviours, including:

Tone at the top and commitment to quality across the engagement team – conveying the importance of scepticism, and the need for more persuasive evidence the higher the assessed risk. The recently approved changes to ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019) may assist in that regard;

6. Member Bodies and Other Professional Organizations

Institute of Singapore Chartered Accountants (ISCA)

We agree with the DP that firm culture is a key component of audit quality and a lack of clear firm policies and procedures with regard to audit quality is a cause for poor audit quality. While standards can endeavour to influence mindset and behaviour, firm culture plays a critical role in driving behaviour that impact audit quality.

Paragraph 32 (b) of the recently issued ISQM 1 requires personnel to demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.

In our view, there needs to be an increased emphasis within ISQM 1 on the accountability of the engagement partner vis-à-vis other firm personnel. We note some commendable firm practices where engagement partner remuneration is linked to audit quality. Any major audit quality issues will have a direct impact on an engagement partner's remuneration and prolonged audit quality issues may even result in an engagement partner's dismissal from the firm.

Appropriate actions which commensurate with the engagement partner's responsibilities are important as the tone from the top ultimately cascades down to the engagement team and drive how the audit is carried out.

Q2a.1-04-19 - Yes - Linkages to ISQM 2 - Engagement quality reviews\01 - Yes - Linkages to ISQM 2 - Discussion with the engagement team

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Engagement quality review

We agree with the measures proposed in the DP and believe that the new set of standards on quality management should facilitate their application. We refer in particular to the general requirement as included in paragraph 25 (b) and related application material (paragraphs A34 and A35) of the ISQM 2 and to ISA 220 (Revised) and its application material (paragraphs A 36, A 54 and A 92) which include explicit references to fraud and going concern.

Q2a.1 - Yes\If yes, in what areas\Q2a.1-05 - Yes - Definition of fraud

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Furthermore, we identified during our inspections some provisions of the standards that create difficulties and where improvements could be made. As such, we encourage the IAASB to examine:

whether the definitions of key terms in ISA 240 such as “fraud” and “fraud risk factors” are sufficiently robust and still fit for purpose. This includes examining their potential convergence with the definitions commonly used by anti-fraud experts and/or organisations and the interlinkage with the notions of bribery, corruption, money laundering etc;

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

We identified further provisions of the standards that create difficulties and where improvements could be made. As such, we encourage the IAASB to examine:

whether the definitions of key terms in ISA 240 such as “fraud” and “fraud risk factors” are sufficiently robust and still fit for purpose. This includes examining their potential convergence with the definitions commonly used by anti-fraud experts and/or organisations and the links with the notions of bribery, corruption, money laundering etc;

3. National Audit Standard Setters

Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

Term fraud and its scope not clearly defined

As mentioned hereabove, the auditor's responsibility is to plan an audit to obtain reasonable assurance that there are no material misstatements that are resulting from fraud and error.

Furthermore, fraud is a legal concept and the definition of fraud in the law is very broad and includes, without any materiality threshold, any accounting, tax and social security fraud, any internal and external fraud and any embezzlement organised for a moral or financial advantage.

The same term (fraud) used in two different contexts with different objectives is a source of misunderstanding and increases expectation gap.

We therefore consider that the term fraud in the context of audit should be further clarified and explained to the third parties. For example, it is unclear whether or not the term Fraud includes client's non-compliance with laws and regulations (NOCLAR), corruption, money laundering and the financing of terrorism, internal or external fraud. We are also conscious that there is not always a clear distinction between these two categories and that one may lead to another. Moreover, a matter of non-compliance with laws and regulations may also be a matter of fraud. When committed intentionally, such non-compliance or irregularity may be considered as fraud by stakeholders.

Royal Netherlands Institute of Chartered Accountants (NBA)

It would be useful to have a clear definition of fraud although this might be difficult to achieve. Fraud seems to be a collective term which includes non-compliance with laws and regulations (e.g. corruption, money laundering) and green washing as well. The overlap and differences between ISA 240 and ISA 250 might also not be well understood. Furthermore, the focus should remain on material fraud as it is impossible to detect all immaterial frauds that do not directly relate to the financial statements such as petty theft. We recommend have an overall definition which includes material fraud and non-compliance and considering integration of ISA 240 and 250. It should be clear which actions need to be taken in the various circumstances and scenario's (e.g. a decision tree might be useful).

5. Public Sector Organizations

New Zealand Auditor General (NZAG)

The evolution gap

The definition of fraud in paragraph 12 of ISA 240 could be expanded to include bribery and corruption.

New Zealand, together with 43 other countries, is a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The OECD has commented that they see auditors as playing an important role in identifying and reporting bribery. Furthermore, the OECD has noted that the auditing standards do not explicitly refer to bribery as falling within the definition of fraud.

In audits carried out by the New Zealand Auditor-General, we have explicitly included bribery and corruption in the definition of fraud because bribery and corruption is an intentional act ... involving the use of deception to obtain an unjust or illegal advantage.

We encourage the IAASB to engage with the OECD about the appropriate role of the auditor in respect of bribery and corruption in the context of the audits of financial statements.

6. Member Bodies and Other Professional Organizations

Belgian National Chapter of Transparency International (BNCTI)

We would like to highlight a single point important to us, namely the absence of specific mention of corruption in ISA 240 as an element of fraud.

The impact of the coronavirus crisis meant that our further public action after successful seminars in 2017 and 2019, was restricted. However, we were able to organize recently a virtual round table with representation from the Belgian Institute of Auditors, practising auditors, academia and two of the relevant regulatory bodies. From the discussions we concluded that corruption, whilst in some cases an element of fraud and associated criminality, as in the case of money-laundering, was very rarely, if at all, specifically mentioned

We therefore recommend that in ISA240 fraud be specifically defined as follows: (1) asset misappropriation, (2) fraudulent statements and (3) bribery and corruption. It corresponds to the definitions of fraud applied by for example ACFE (1997 onwards) and COSO (Fraud Risk Management model, 2016 onwards).

We hope our observations in this letter provide useful input as the Board progresses its thinking on these topics in auditing standards and specifically in ISA240.

We believe that though corruption in monetary or other forms might very rarely be directly material to financial statements subject to audit, the potential impact of eventually resultant penalties may be far more important and possibly material. Further, with the current transposition into national legislation of the European Union Directive on Whistle-blowing addressing the protection of whistle-blowers, which may lead to more focus on fraud, we believe that it is an appropriate moment to re-consider its description in ISA240

European Audit Committee Leadership Network (EACLN)

Fraud comes in many forms

European audit chairs emphasized that when evaluating whether any changes are needed relative to stakeholders' responsibilities for the prevention and detection of fraud, "fraud" should be appropriately defined to effectively assess any changes and their potential impact. One chair elaborated on the concern: "We need to explain what we mean by fraud. As audit chairs, we are worried about high-level corporate fraud creating misstatements of financial statements. Other types of fraud, like bribery and corruption, might not be reflected in financial statements. You could do any amount of analysis and not find it."

Several audit chairs observed that many stakeholders tend to conflate all "bad" corporate behavior—whether illegal, unethical, or merely reputationally harmful—with fraud. They said that such a broad definition can complicate the effort to close the expectations gap. One audit chair noted, "Any company that doesn't meet investors' expectations needs to strengthen its audits. But that failure to meet investors' expectations could be the result of weak management, not fraud." Another audit chair called for a focus on frauds that not only were formally material but also had catastrophic consequences for a company.

Stakeholders use the word "fraud" in many contexts. Fraud should be carefully defined in discussions among diverse stakeholders when considering whether any changes are necessary.

Kriton (KNL)

Clarifying the definition of the term fraud (and, for example, the distinction between theft, embezzlement and fraud, as well as the reason why this distinction is important).

Modifying the third criterion of the fraud definition: to obtain an advantage and/or harm another.

We are in favour of an amendment to ISA 240, so that auditors internationally deal with (identifying) fraud risks and suspected fraud in the same consistent manner. In addition, as explained earlier in the response, we prefer that the concept of fraud be extended to 'financial-economic crime'. In various countries, the use of forensic expertise during audit engagements and the engagement quality review procedures is being discussed and experiments are being conducted.

Q2a.1 - YesIf yes, in what areasQ2a.1-06 - Yes - External confirmations

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

Enhanced auditor requirements – Professional Skepticism version 2.0

In addition to our earlier comments about the need for root cause analyses, we refer the IAASB to our comment letter dated July 4, 2019, Proposed Future Strategy for 2020-2023 and Work Plan for 2020-2021 for suggested priorities on ISA 240, The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements and ISA 505, External Confirmations for key areas to be addressed as it pertains to the auditor's responsibility for the detection of fraud. These suggested priorities are included below for reference:

ISA 240, The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements

There should be clear requirements and guidance in ISA 240 and throughout the ISAs regarding the exercise of professional skepticism by auditors.

ISA 505, External confirmations

There should be guidance for auditors on how to assess the reliability of external confirmations received having regard to the possibility of fraud. There also should be more complete requirements on how auditors should respond where there is no reply to a confirmation request.

To supplement our suggestions above taken from our previous comment letter, we encourage the IAASB to consider whether ISA 505, External confirmations, needs to be strengthened (either through standard-setting or application guidance) to adapt to the complexities and technological advances that exist in today's global business environment (e.g. paper vs. electronic confirmation) and whether further guidance for auditors in evaluating evidence received from external sources is needed.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

ISA 240 paragraph 14 stipulates that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine and that if conditions are identified the auditor shall investigate further. The IAASB should require auditors to be more sceptical when evaluating audit evidence (including external confirmations) of crucial importance for obtaining reasonable assurance on specific issues.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

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Q2a.1 - Yes\If yes, in what areas\Q2a.1-07 - Yes - Forensic specialists\Q2a.1-07-01 YES, Forensic specialists in all audits

Q2a.1 - Yes\If yes, in what areas\Q2a.1-07 - Yes - Forensic specialists\Q2a.1-07-02 YES, Forensic specialists only in certain circumstances\Q2a.1-07-02.1 Yes, Forensic specialists only in certain circumstances - Areas to target use of forensic specialists\01 - Yes, Forensic specialists only in certain circumstances - Areas - Forensic specialists to assist with risk assessment and fraud risk brainstorming

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

Use of forensic specialists

The Paper on page 18 introduces a question about requiring the use of forensic specialists or other relevant specialists in some aspects of a financial statement audit. We support investigating the benefits that targeted utilization of forensic specialists, particularly in the risk assessment and fraud risk brainstorming phases of a financial statement audit, may bring, and whether forensic specialist involvement in other phases of a financial statement audit depending on the entity's risk profile is appropriate (including in the planning of audit procedures or using forensic specialists in an unpredictable or surprise manner). In light of our comment regarding the cost/benefit analysis above, the benefits of engaging forensic specialists in the risk assessment and fraud risk brainstorming phases of an audit could be one avenue to introduce a forensic mindset to an engagement team at a critical juncture of an audit. Additionally, the interaction among audit engagement team members with forensic specialists can add educational value to less experienced team members to enhance their skillset which can result in improvement in audit execution and ultimately audit quality.

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2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Use of forensic and other specialists

ISA 240 only requires auditors to consider engaging forensic and IT specialists as a response to suspected fraud or assessed risks of material misstatement due to fraud. This use of forensic specialists is consistent with what we saw in our thematic review. For example, we identified forensic specialists engaged in five per cent of audits in response to a trigger event including a suspicion about the integrity of management or an allegation about misappropriation of assets.

Given the increasing complexity of entities' business models and sophistication of fraud schemes, we believe that auditors should be required to involve forensic and IT specialists more frequently during risk assessment and throughout the audit. That determination should be based on an evaluation by the engagement team of the specialized skills or knowledge needed to perform fraud risk assessments based on some of the following factors including complexity of the business model, information systems, transactions, data flows, estimation models, related party transactions and fraud risks associated with the industry, and countries where the entity operates.

Committee of European Auditing Oversight Bodies (CEAOB)

Use of forensic specialists or other relevant specialists

The general provisions of ISAs apply to the use of forensic specialists or other relevant specialists (for example in cybersecurity and data analytics) in an audit of financial statements. The IAASB should explore whether the auditor should be required to consider the need for forensic specialists or other relevant specialists in certain circumstances. For example, this use might be needed during the risk assessment, notably when considering the possibilities and likelihood of fraud occurring, when there are signals of fraud, or when a fraud involving management has been identified or is suspected.

The use of a forensic specialist does not affect the extent of the auditor's responsibility on the audit. The auditor remains responsible for forming and expressing the audit opinion. In addition, it is important for the auditors to be clear on the expertise that they expect from that specialist and the link with the audit engagement. Forensic specialists are generally engaged after a trigger event has occurred to analyse specific issues and their engagement does not exempt the auditor from performing the procedures required to achieve the audit objectives. Discussing the need for forensic specialist's involvement with TCWG may prove beneficial.

Financial Reporting Council (FRC)

Risk assessment procedures and related activities - requiring that the auditor shall determine whether the engagement team requires specialized skills or knowledge to perform particular procedures. Application material has been added giving examples of matters that may affect the auditor's determination of whether the engagement team requires specialized skills or knowledge, including a possible need for forensic skills as part of the risk assessment process, and to follow up on identified or suspected fraud. We have added a specific requirement that, if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

3. National Audit Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

The auditor should be required to determine whether the skill and knowledge of an expert is needed during the audit, for example, to perform assessments of risks of fraud, perform audit procedures, or evaluate audit evidence, according to the nature and significance of the risks of fraud (Standard to Address Risks of Fraud section II paragraph 14). In this context, "expert" means, for example, forensic and IT experts.

Using the work of an expert

The auditor should be required to determine whether the skill and knowledge of an expert is needed during the audit, for example, to perform assessments of risks of fraud, perform audit procedures, or evaluate audit evidence, according to the nature and significance of the risks of fraud (Standard to Address Risks of Fraud section II paragraph 14). In this context, "expert" means, for example, forensic and IT experts.

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

a) Our experience is that the current standards include sufficient requirements for the auditor to do a good risk assessment. The auditor should however be encouraged consider the need to involve a fraud expert during this process, is especially in instances where the is a heightened risk of fraud identified. We are of

the view that if where additional requirements are added, these should not be done in a way that broadens the scope of an audit beyond that required to provide a reasonable assurance opinion and therefore no longer be in line with the achievement of the objective of an audit.

An enhancement that could be made to the current requirements is for there to be a differentiation in approach between private sector and public sector audits as the opportunities, pressures and rationalisations between the organisations differ. An example of this is with regards to the presumed risks of fraud where the concern in private sector may be more on revenue recognition whereas in the public sector concerns relate to public procurement and the incurrence of expenditure.

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New Zealand Auditor General (NZAG)

The suggestion in the IAASB Discussion Paper to consider using fraud specialists when auditing entities with certain characteristics has considerable merit. The reasoning for bringing specialist skills to the audits of certain entities at least at the planning stage links to the sophisticated and innovative means of perpetrating frauds in a world where technology is advancing rapidly, and in recognition that traditional auditors “don’t know what they don’t know”.

Using fraud specialists in the audit

The suggestion in the IAASB Discussion Paper to consider using fraud specialists when auditing entities with certain characteristics has considerable merit. The reasoning for bringing specialist skills to the audits of certain entities at least at the planning stage links to the sophisticated and innovative means of perpetrating frauds in a world where technology is advancing rapidly, and in recognition that traditional auditors “don’t know what they don’t know”.

Q2a.1 - Yes**If yes, in what areas****Q2a.1-07 - Yes - Forensic specialists****Q2a.1-07-02 YES, Forensic specialists only in certain circumstances****Q2a.1-07-02.1 Yes, Forensic specialists only in certain circumstances - Areas to target use of forensic specialists****02 - Yes, Forensic specialists only in certain circumstances - Areas - Forensic specialists to investigate where fraud is identified or suspected**

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

As identified in in our response to Q2(a), auditors should be required to determine whether the engagement team requires specialized skills or knowledge to perform particular procedures. It is not appropriate to

require the use of forensic specialists in all audits. The nature of a forensic investigation into actual or suspected fraud is different to the approach of a general purpose financial statement audit. To require a 'forensic approach' to all elements of a financial statement audit, even when there is no identified risk of material misstatement due to fraud, would likely be prohibitively expensive. However, we are proposing a requirement that if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

Independent Regulatory Board for Auditors (IRBA)

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Suspicion of fraud

Once fraud is confirmed, it is possible to make the appropriate adjustments to the financial information and conclude the audit. However, confirming the fraud is onerous. The practical challenge lies in investigating and resolving mere suspicion and determining the impact that this has on the audit. The standard does not distinguish between responding to and resolving suspicion of fraud versus responding to and resolving confirmed fraud. The audit risk in this "in-between phase" is thus high.

We, therefore, propose:

As a starting point, that the standard should mandate an investigation to be performed, where fraud is suspected. For example, there should be an option for either management/those charged with governance to investigate the suspicion (as ultimately identifying and responding to fraud is their responsibility); OR for the auditor to investigate the suspicion on behalf of management/those charged with governance (with the use of forensic specialists identified by the auditor, if needed, and at the client's expense). This is because it is only possible to design an appropriate audit response when the issue is properly understood. It may, in the absence of an investigation, be impossible to get to a "sufficient appropriate audit evidence" conclusion. If the investigation is refused, the auditor may then be able to modify the opinion, based on a scope limitation or take other appropriate action.

3. National Audit Standard Setters

Korean Institute of Certified Public Accountants (KICPA)

In addition, upon the occurrence of suspicious frauds or their signs, additional procedures to be conducted are about the scope of forensic audits on frauds, which makes it appropriate for such forensics to be performed based on a separate contract, if considered necessary.

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Scotland (ICAS)

Firstly, we believe it is essential that it is remembered that the primary responsibility in relation to the prevention and detection of fraud rest with the directors of the entity. Therefore, we are supportive of a more holistic approach, that will involve additional requirements on those charged with governance. However, such an approach is not within IAASB's mandate which is solely focussed on setting standards for auditors. Therefore, whilst we believe there is scope for enhancement of the auditor's procedures, these would be most beneficial in an environment in which additional responsibilities are also being placed on those charged with governance of an entity.

That said, we do believe there is room for improving extant ISA 240 and would flag the proposals in the recent consultation by the UK FRC which proposed a number of enhancements to the standard. These including those intended to further promote the exercise of professional scepticism by the auditor and the addition of new paragraphs requiring that the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform particular procedures and, that if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

Q2a.1 - Yes**\If yes, in what areas****Q2a.1-07 - Yes - Forensic specialists****Q2a.1-07-02 YES, Forensic specialists only in certain circumstances****Q2a.1-07-02.1 Yes, Forensic specialists only in certain circumstances - Areas to target use of forensic specialists****03 - Yes, Forensic specialists only in certain circumstances - Areas - Forensic specialists used in unpredictability procedures**

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

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The Paper on page 18 introduces a question about requiring the use of forensic specialists or other relevant specialists in some aspects of a financial statement audit. We support investigating the benefits that targeted utilization of forensic specialists, particularly in the risk assessment and fraud risk brainstorming phases of a financial statement audit, may bring, and whether forensic specialist involvement in other phases of a financial statement audit depending on the entity's risk profile is appropriate (including in the planning of audit procedures or using forensic specialists in an unpredictable or surprise manner). In light of our comment regarding the cost/benefit analysis above, the benefits of engaging forensic specialists in the risk assessment and fraud risk brainstorming phases of an audit could be one avenue to introduce a forensic mindset to an engagement team at a critical juncture of an audit. Additionally, the interaction among audit engagement team members with forensic specialists can add educational value to less experienced team members to enhance their skillset which can result in improvement in audit execution and ultimately audit quality.

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3. National Audit Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

Using the work of an expert

The auditor should be required to determine whether the skill and knowledge of an expert is needed during the audit, for example, to perform assessments of risks of fraud, perform audit procedures, or evaluate audit evidence, according to the nature and significance of the risks of fraud (Standard to Address Risks of Fraud section II paragraph 14). In this context, "expert" means, for example, forensic and IT experts.

6. Member Bodies and Other Professional Organizations

CFO Forum

Due to the nature and complexity of fraud, there are members that believe that it will be beneficial for audit teams to use forensic specialists. The IAASB could accordingly consider requiring audit firms to include forensic audit training as part of the audit firm's International Standard on Quality Control (ISQC) process and procedures for engagement performance, as well as provide guidance on the application of technology in performing fraud-related procedures (for example run data analytics to identify exceptions and anomalies). However, these members do not believe that the cost of including such forensic specialists should be excessive or borne solely by the audited entity/group, but rather that the audit firm/s themselves should share in these costs as the audit firms are aligning to audit on a risk identification basis.

Q2a.1 - Yes
Q2a.1-07 - Yes - Forensic specialists
Q2a.1-07-02 YES, Forensic specialists only in certain circumstances
Q2a.1-07-02.1 Yes, Forensic specialists only in certain circumstances - Areas to target use of forensic specialists
05 - Yes, Forensic specialists only in certain circumstances - Areas - Requirement to use forensic specialists encouraged, but no specific area noted

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

We are of the view that it would be beneficial to require the use of forensic specialists in circumstances where the pre-engagement procedures reveal a significant possibility of fraudulent activities. We already perform such an assessment on our audits at the AGSA and consequently require the involvement of fraud experts on relevant audits.

6. Member Bodies and Other Professional Organizations

Institute of Directors in South Africa's Audit Committee Forum (IoDSA ACF)

As audit committee members we are aware that the main responsibility for the prevention and detection of fraud primarily rests with management. However, this does not preclude the need for enhanced requirements regarding fraud from management and the auditor's perspective. We have set out above our views on both increased disclosure of the audit procedures undertaken by the auditor in relation to fraud, as well as the possibility of the auditor reporting on management's controls over fraud as part of their auditor engagement.

In addition, the nature, complexity and industry of the company should have a direct correlation to the level of expertise and specialisation of the allocated audit team. The IAASB should consider greater disclosure around the key audit team experience in the sector, and should also consider the inclusion, where appropriate and feasible, of forensic expertise on the audit team should there be a heightened concern.

Mexican Institute of Public Accountants (IMCP)

To require the use of specialists based on the assessed risk of fraud.

South African Institute of Chartered Accountants (SAICA)

In those scenarios where the engagement team may need to heighten their professional scepticism in an audit engagement, ISA 240 could be enhanced to place a requirement on the external auditor to possibly make use of an expert such as a forensic auditor.

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Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Yes, there are members that believe that there is a need for enhanced procedures for certain entities or in specific circumstances.

If yes:

For what type of entities or in what circumstances?

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

What enhancements are needed?

The use of forensic skills within the audit process.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As previously mentioned, corporate culture plays an important role in preventing and deterring fraud. If enhanced fraud procedures are voluntary, entities that have robust policies and processes, or entities that do not place a lot of emphasis on fraud prevention and deterrence, may not be willing to incur an additional cost that is not mandatory. Due to the impact of increased corporate failures relating to fraud these changes should be included within the scope of an audit.

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03 Yes, Forensic specialists only in certain circumstances - Types of Circumstances - In entities with higher risk of fraud

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

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ISA 240 only requires auditors to consider engaging forensic and IT specialists as a response to suspected fraud or assessed risks of material misstatement due to fraud. This use of forensic specialists is consistent with what we saw in our thematic review. For example, we identified forensic specialists engaged in five per cent of audits in response to a trigger event including a suspicion about the integrity of management or an allegation about misappropriation of assets.

Given the increasing complexity of entities' business models and sophistication of fraud schemes, we believe that auditors should be required to involve forensic and IT specialists more frequently during risk assessment and throughout the audit. That determination should be based on an evaluation by the engagement team of the specialized skills or knowledge needed to perform fraud risk assessments based on some of the following factors including complexity of the business model, information systems, transactions, data flows, estimation models, related party transactions and fraud risks associated with the industry, and countries where the entity operates.

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3. National Audit Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

Using the work of an expert

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5. Public Sector Organizations

Auditor General of South Africa (AGSA)

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An enhancement that could be made to the current requirements is for there to be a differentiation in approach between private sector and public sector audits as the opportunities, pressures and rationalisations between the organisations differ. An example of this is with regards to the presumed risks of fraud where the concern in private sector may be more on revenue recognition whereas in the public sector concerns relate to public procurement and the incurrence of expenditure.

We are of the view that it would be beneficial to require the use of forensic specialists in circumstances where the pre-engagement procedures reveal a significant possibility of fraudulent activities. We already perform such an assessment on our audits at the AGSA and consequently require the involvement of fraud experts on relevant audits.

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Using fraud specialists in the audit

The suggestion in the IAASB Discussion Paper to consider using fraud specialists when auditing entities with certain characteristics has considerable merit. The reasoning for bringing specialist skills to the audits of certain entities at least at the planning stage links to the sophisticated and innovative means of perpetrating frauds in a world where technology is advancing rapidly, and in recognition that traditional auditors “don’t know what they don’t know”.

6. Member Bodies and Other Professional Organizations

CFO Forum

Due to the nature and complexity of fraud, there are members that believe that it will be beneficial for audit teams to use forensic specialists. The IAASB could accordingly consider requiring audit firms to include forensic audit training as part of the audit firm’s International Standard on Quality Control (ISQC) process and procedures for engagement performance, as well as provide guidance on the application of technology in performing fraud-related procedures (for example run data analytics to identify exceptions and anomalies). However, these members do not believe that the cost of including such forensic specialists should be excessive or borne solely by the audited entity/group, but rather that the audit firm/s themselves should share in these costs as the audit firms are aligning to audit on a risk identification basis.

Is there a need for enhanced procedures only for certain entities or in specific circumstances?

Yes, there are members that believe that there is a need for enhanced procedures for certain entities or in specific circumstances.

If yes:

For what type of entities or in what circumstances?

Enhanced procedures should apply to listed entities, regulated entities and high-risk entities (this would involve a level of judgement but includes entities or groups where high-risk factors are present based on industry for example, state-owned entities, scrap metal companies etc.) or with consideration to other high-risk factors (such as negative media attention, shareholder activity etc.).

What enhancements are needed?

The use of forensic skills within the audit process.

Should these changes be made within the ISAs or outside the scope of an audit (e.g., a different engagement)? Please explain your answer.

As previously mentioned, corporate culture plays an important role in preventing and deterring fraud. If enhanced fraud procedures are voluntary, entities that have robust policies and processes, or entities that do not place a lot of emphasis on fraud prevention and deterrence, may not be willing to incur an additional cost that is not mandatory. Due to the impact of increased corporate failures relating to fraud these changes should be included within the scope of an audit.

Institute of Directors in South Africa's Audit Committee Forum (IoDSA ACF)

As audit committee members we are aware that the main responsibility for the prevention and detection of fraud primarily rests with management. However, this does not preclude the need for enhanced requirements regarding fraud from management and the auditor's perspective. We have set out above our views on both increased disclosure of the audit procedures undertaken by the auditor in relation to fraud, as well as the possibility of the auditor reporting on management's controls over fraud as part of their auditor engagement.

In addition, the nature, complexity and industry of the company should have a direct correlation to the level of expertise and specialisation of the allocated audit team. The IAASB should consider greater disclosure around the key audit team experience in the sector, and should also consider the inclusion, where appropriate and feasible, of forensic expertise on the audit team should there be a heightened concern.

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To require the use of specialists based on the assessed risk of fraud.

South African Institute of Chartered Accountants (SAICA)

In those scenarios where the engagement team may need to heighten their professional scepticism in an audit engagement, ISA 240 could be enhanced to place a requirement on the external auditor to possibly make use of an expert such as a forensic auditor.

Q2a.1 - Yes \If yes, in what areas\ **Q2a.1-07 - Yes - Forensic specialists** \ **Q2a.1-07-02 YES, Forensic specialists only in certain circumstances** \ **Q2a.1-07-02.1 Yes, Forensic specialists only in certain circumstances - Types of circumstances** \ **04 Yes, Forensic specialists only in certain circumstances - Types of Circumstances - When fraud or suspected fraud is identified**

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Use of forensic specialists or other relevant specialists

The general provisions of ISAs apply to the use of forensic specialists or other relevant specialists (for example in cybersecurity and data analytics) in an audit of financial statements. The IAASB should explore whether the auditor should be required to consider the need for forensic specialists or other relevant specialists in certain circumstances. For example, this use might be needed during the risk assessment, notably when considering the possibilities and likelihood of fraud occurring, when there are signals of fraud, or when a fraud involving management has been identified or is suspected.

The use of a forensic specialist does not affect the extent of the auditor's responsibility on the audit. The auditor remains responsible for forming and expressing the audit opinion. In addition, it is important for the auditors to be clear on the expertise that they expect from that specialist and the link with the audit engagement. Forensic specialists are generally engaged after a trigger event has occurred to analyse specific issues and their engagement does not exempt the auditor from performing the procedures required to achieve the audit objectives. Discussing the need for forensic specialist's involvement with TCWG may prove beneficial.

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Financial Reporting Council (FRC)

Risk assessment procedures and related activities - requiring that the auditor shall determine whether the engagement team requires specialized skills or knowledge to perform particular procedures. Application material has been added giving examples of matters that may affect the auditor's determination of whether the engagement team requires specialized skills or knowledge, including a possible need for forensic skills as part of the risk assessment process, and to follow up on identified or suspected fraud. We have added a specific requirement that, if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

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The team discussion should in effect include elements of a suspicious mindset (e.g. considering how could management perpetrate fraud if they were inclined to) and possibly it could be referred to in that context. But there should not be a requirement that "the auditor applies a suspicious mindset when planning and performing the audit", rather be clear the auditor responds appropriately when circumstances give rise to a suspicion of fraud (which is already part of the objectives). However, the standard should be clearer about how the auditor responds if they identify or suspect fraud. In our exposure draft we are proposing a specific

requirement to determine whether a forensic expert is needed to investigate further. Our current standard also has further communication requirements, including inviting the entity to investigate further, and informing relevant authorities if the entity does not investigate further. This is an aspect of the auditor's responsibilities that should be considered further in a more fundamental review and revision of the standard.

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Independent Regulatory Board for Auditors (IRBA)

Responses to the Assessed Risks of Material Misstatement Due to Fraud

Suspicion of fraud

Once fraud is confirmed, it is possible to make the appropriate adjustments to the financial information and conclude the audit. However, confirming the fraud is onerous. The practical challenge lies in investigating and resolving mere suspicion and determining the impact that this has on the audit. The standard does not distinguish between responding to and resolving suspicion of fraud versus responding to and resolving confirmed fraud. The audit risk in this "in-between phase" is thus high.

We, therefore, propose:

As a starting point, that the standard should mandate an investigation to be performed, where fraud is suspected. For example, there should be an option for either management/those charged with governance to investigate the suspicion (as ultimately identifying and responding to fraud is their responsibility); OR for the auditor to investigate the suspicion on behalf of management/those charged with governance (with the use of forensic specialists identified by the auditor, if needed, and at the client's expense). This is because it is only possible to design an appropriate audit response when the issue is properly understood. It may, in the absence of an investigation, be impossible to get to a "sufficient appropriate audit evidence" conclusion. If the investigation is refused, the auditor may then be able to modify the opinion, based on a scope limitation or take other appropriate action.

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3. National Audit Standard Setters

Korean Institute of Certified Public Accountants (KICPA)

In addition, upon the occurrence of suspicious frauds or their signs, additional procedures to be conducted are about the scope of forensic audits on frauds, which makes it appropriate for such forensics to be performed based on a separate contract, if considered necessary.

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5. Public Sector Organizations

Auditor General of South Africa (AGSA)

a) Our experience is that the current standards include sufficient requirements for the auditor to do a good risk assessment. The auditor should however be encouraged consider the need to involve a fraud expert during this process, is especially in instances where the is a heightened risk of fraud identified. We are of the view that if where additional requirements are added, these should not be done in a way that broadens the scope of an audit beyond that required to provide a reasonable assurance opinion and therefore no longer be in line with the achievement of the objective of an audit.

An enhancement that could be made to the current requirements is for there to be a differentiation in approach between private sector and public sector audits as the opportunities, pressures and rationalisations between the organisations differ. An example of this is with regards to the presumed risks of fraud where the concern in private sector may be more on revenue recognition whereas in the public sector concerns relate to public procurement and the incurrence of expenditure.

We are of the view that it would be beneficial to require the use of forensic specialists in circumstances where the pre-engagement procedures reveal a significant possibility of fraudulent activities. We already perform such an assessment on our audits at the AGSA and consequently require the involvement of fraud experts on relevant audits.

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Scotland (ICAS)

Firstly, we believe it is essential that it is remembered that the primary responsibility in relation to the prevention and detection of fraud rest with the directors of the entity. Therefore, we are supportive of a more holistic approach, that will involve additional requirements on those charged with governance. However,

such an approach is not within IAASB's mandate which is solely focussed on setting standards for auditors. Therefore, whilst we believe there is scope for enhancement of the auditor's procedures, these would be most beneficial in an environment in which additional responsibilities are also being placed on those charged with governance of an entity.

That said, we do believe there is room for improving extant ISA 240 and would flag the proposals in the recent consultation by the UK FRC which proposed a number of enhancements to the standard. These including those intended to further promote the exercise of professional scepticism by the auditor and the addition of new paragraphs requiring that the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform particular procedures and, that if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

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Institute of Directors in South Africa's Audit Committee Forum (IoDSA ACF)

As audit committee members we are aware that the main responsibility for the prevention and detection of fraud primarily rests with management. However, this does not preclude the need for enhanced requirements regarding fraud from management and the auditor's perspective. We have set out above our views on both increased disclosure of the audit procedures undertaken by the auditor in relation to fraud, as well as the possibility of the auditor reporting on management's controls over fraud as part of their auditor engagement.

In addition, the nature, complexity and industry of the company should have a direct correlation to the level of expertise and specialisation of the allocated audit team. The IAASB should consider greater disclosure around the key audit team experience in the sector, and should also consider the inclusion, where appropriate and feasible, of forensic expertise on the audit team should there be a heightened concern.

Mexican Institute of Public Accountants (IMCP)

To require the use of specialists based on the assessed risk of fraud.

South African Institute of Chartered Accountants (SAICA)

In those scenarios where the engagement team may need to heighten their professional scepticism in an audit engagement, ISA 240 could be enhanced to place a requirement on the external auditor to possibly make use of an expert such as a forensic auditor.

Q2a.1 - YesIf yes, in what areas\Q2a.1-08 - Yes - Journal entry testing

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

whether the scope of journal entries testing in response to risk related to management override of controls in ISA 240 should be enhanced with at least requirement to test journal entries and other adjustments throughout the period;

Independent Regulatory Board for Auditors (IRBA)

Audit procedures responsive to risks of management override of controls (journal entry testing)

We propose expanding on and modernising journal entry testing procedures, specifically the testing of the appropriateness of journal entries, to improve the quality and consistency of execution of these procedures.

Effective journal entry testing could be the single most important audit procedure to help identify fraud committed by management. We believe that enhancements to these procedures may therefore be highly effective in narrowing the fraud expectation gap.

Specifically:

ISA 315 requires the auditor to obtain an understanding of the information system, including journal entries (standard versus non-standard). The standard does not expand on the details required to be understood to enable the auditor to identify instances of management override of controls, such as the integration between sub-ledgers and general ledgers, the sources of the types of different journal entries, as well as the access and authorisation rights of different individuals that post journal entries. Therefore, there is scope to link the requirements of ISA 315.18 with ISA 240.33 and to expand on the minimum requirements.

Public Interest Entities have millions or even hundreds of millions of journal entry data and most postings are now automated. So, we would challenge whether it is feasible to get sufficient appropriate audit evidence over the risk of management override of controls in the absence of being required to obtain and analyse the entire journal entry data set (through data analysis) in these circumstances. This is in line with ISA 315.A94, which reads: "When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of computer-assisted audit techniques."

There should be an explicit requirement for the auditor to test the completeness of the journal entry data population before selecting journal entries for further testing. Some guidance on the implications for the audit when a journal entry data set is incomplete may also be helpful.

The extant procedures state what is required, but do not expand on what the purpose of the procedures is and how these procedures are to be executed. The presumptions underpinning these procedures may also need to be reconsidered. For example:

Make(ing) inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. This is only effective when you can be specific. The client respondent will not know what is considered non-standard/indicative of fraud.

Data analysis is a useful tool to enable the auditor to ask more specific questions. In addition, it should be made clear that the team should not be inquiring from someone who forms part of the management team, such as the financial manager.

Select(ing) journal entries and other adjustments made at the end of a reporting period. It is presumed that fraudulent journal entries and other adjustments are often made at the end of a reporting period. Is this presumption still relevant? Has fraud not evolved beyond this over time? From recent corporate failures, is there any evidence that supports that fraudulent adjustments are more likely to be made at year-end than throughout the year? In addition, there is no guidance on how these journal entries are selected, for example, a risk-based selection that requires the auditor to understand the means (incentive, opportunity and rationalisation) through which financial results may be manipulated through journal entry adjustments.

Consider(ing) the need to test journal entries and other adjustments throughout the period. ISA 240.A45 states that "... because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal how the fraud is accomplished, paragraph 33(a)(iii) requires the auditor to consider whether there is also a need to test journal entries and other adjustments throughout the period." Linking to the challenge above, whether the underpinning presumption that "fraudulent adjustments are more likely to be made at year-end" remains true, consideration should be given to mandating the testing of journal entries and other adjustments throughout the period. At a minimum, consideration should be given to whether the application guidance in paragraph A44 needs to be modernised. Specifically, the "characteristics of fraudulent journal entries or other adjustments" have become boilerplate and are no longer effective. Fraudsters have become much smarter and fraudulent financial reporting much more complex.

It is generally very difficult to filter through large populations of journal entries to identify those that are truly indicative of fraud. Therefore, we are often asked: "How much do we need to test?" We then think it is important to remind practitioners (in the application guidance, perhaps) that journal entry testing is risk-based and that the objective is to test all the outliers in the data set. Stratifying the population to distinguish between "standard" and "non-standard" journals is a critical part of the test and forms a key part of audit evidence. As such, it differs from other substantive procedures where key items and random samples are selected to enable the auditor to conclude on a balance. Due to its unique nature, we do not envisage that the extent of journal entry testing can be prescribed. Again, it should be emphasised that the auditor requires an in-depth understanding of the sources of journal entries and other relevant characteristics for this to be effective, and may also need to make use of data analytic tools.

Lastly, we recommend that Documentation also be updated to include minimum documentation requirements for journal entry testing procedures.

[Irish Auditing and Accounting Supervisory Authority \(IAASA\).pdf](#)

whether the scope of journal entries testing in response to risks related to management override of controls in ISA 240 should be enhanced with at least a requirement to test journal entries and other adjustments throughout the period;

[3. National Audit Standard Setters](#)

[Canadian Auditing and Assurance Standards Board \(AASB\)](#)

Nature and extent of journal entry testing

Feedback from stakeholders suggests some auditors do not understand the purpose of journal entry testing. Practitioners indicated that there is inconsistency in practice in how journal entry testing is tailored based on the fraud risks identified in the audit, and the extent of testing required. Practitioners are seeking clarity regarding these matters, including whether a risk-based approach is appropriate when conducting journal entry testing. Stakeholders also believe the standard could be updated to recognize the use of audit analytics when conducting journal entry testing.

Nature and extent of journal entry testing

We and our stakeholders believe ISA 240 could better explain the objective of journal entry testing and how it can be used to address fraud risks in addition to those involving management override.

In addition, auditors are using technology to analyze large sets of financial data, as well as exploring the application of artificial intelligence in their audit procedures. The IAASB should consider developing non-authoritative guidance to explain how audit analytics may be used in journal entry testing and provide examples to illustrate how testing can be tailored to address identified fraud risks.

4. Accounting Firms

MHA Macintyre Hudson (MHA)

Although ISA 240 includes required procedures concerning fraud, these are a mix of high-level responses (e.g. assigning personnel, evaluating accounting policies) and procedural responses (e.g. journal entry testing and considering management bias in estimates). The current journal entry testing and data analytics procedures performed by many auditors focus on anomaly testing, rather than necessarily on identifying fraud. Greater clarity about when and where technology can and should be used in an audit will help address the gap between the complexity of fraudsters' tools and how audits are currently responding to fraud risk. For example, whether the use of Artificial Intelligence and machine learning is acceptable under auditing standards.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Audit procedures responsive to risks related to management override of controls i.e. journal entry testing

We note that in the case of journal entry testing there seem to be some inconsistencies in practice, particularly in LCE audits, with practitioners often questioning the value added when for example, many, if not all, of those entries already formed part of their substantive testing. We therefore suggest providing guidance regarding the 'why' of performing certain audit procedures is better articulated, allowing practitioners to recognise the value added which in its turn will lead to better performance in this area as noted in our response to the IAASB's Discussion Paper on LCEs

Confederation of Indian Industry (CII)

Implementation guidance for management override of control and how it is related to fraud and audit procedures relating to journal entry testing and management estimates (test for bias).

Kriton (KNL)

With regard to the response to the risk of management override of controls, clarifying why the requirement for journal entry testing is included. In the current situation, many auditors fail to recognise that investigating

'conspicuous journal entries' contradicts the premise that fraud involves intent and deception. Furthermore, clarifying the requirements for the use of criteria for investigating journal entries, such as substantiation of the choice of the criteria and the reproducibility of the test work.

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Q2a.1 - YesIf yes, in what areas\Q2a.1-09 - Yes - Non-material fraud

3. National Audit Standard Setters

Hong Kong Institute of Certified Public Accountants (HKICPA)

It is also important for auditors to communicate with appropriate stakeholders (e.g. TCWG) when non-material fraud is identified.

We support the view that auditors need to assess cautiously, both qualitative and quantitative indicators, to determine whether an identified non-material fraud is truly inconsequential and thus requires no further audit procedures.

Japanese Institute of Certified Public Accountants (JICPA)

Responses when identifying non-immaterial fraud or a circumstance that indicates the possibility of non-material misstatement due to fraud

In the course of an audit, when the auditor identifies a non-material fraud or a circumstance that indicates the possibility of a non-material misstatement due to fraud, it should be required to determine whether there is a suspicion of material misstatement due to fraud by understanding the fraud, its causes and relevant internal control and performing additional audit procedures even if the fraud itself is not material (cf. Standard to Address Risks of Fraud section II paragraph 10).

Malaysian Institute of Accountants (MIA)

Auditor responsibilities for non-material fraud

The existing ISA provides guidance where the auditors are required to assess the potential impact (quantitatively or qualitatively) of fraud risk identified or suspected (including non-material fraud). In many cases, the materiality of a matter identified may not be truly understood without further investigation. Therefore, we believe that ISA 240 requires enhancement to address auditor's responsibilities for non-material fraud.

Fraud is a matter that is often inter-related with non-compliance with laws and regulations and often constitutes an illegal act. Therefore, we encourage the IAASB to clarify within ISA 240 the relationship between responding to non-compliance with laws and regulations and responding to instances of fraud.

Q2a.1 - YesIf yes, in what areas\Q2a.1-10 - Yes - Professional skepticism\01 Q2a.1-10 - Yes - Professional skepticism - Use stronger language

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How professional skepticism is addressed in ISA 240, and whether the importance of exercising professional skepticism could be reinforced, for instance through the use of stronger language (such as “challenge, question and reconsider”) and a requirement to “stand-back” by taking into account all evidence obtained in forming conclusions at the end of the audit.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

In the same vein, use of stronger language in ISA 240 (such as “challenge”, “question” and “reconsider”) would be a good way to foster an appropriate mindset and action by the auditor.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

In the same vein, use of stronger language in ISA 240 (such as “challenge”, “question” and “reconsider”) would be a good way to foster an appropriate mindset and action by the auditor.

4. Accounting Firms

MHA Macintyre Hudson (MHA)

A significant aspect of auditor behaviour underpinning the work on fraud and going concern is the application of professional scepticism. In particular challenge of management, including challenging assumptions in estimates may indicate management bias or the basis of the going concern assessment. We believe that the IAASB, and other stakeholders, can do much more to assist auditors in effectively challenging management through better standards, application material, training and guidance. A key part of such materials would be clarity for auditors on the different types of bias, how they manifest themselves during an audit and how they can be mitigated when undertaking audits.

We do not believe that introducing another term, to replace professional scepticism and alongside a "questioning mindset", will be either helpful or would necessarily change behaviour significantly. A key auditor behaviour which should underpin scepticism is effective challenge of management. A greater emphasis in standards, application material, and other guidance on how auditors can challenge management (e.g. on assumptions, estimates, going concern assessment) and, equally importantly, demonstrate that challenge will be of greater value than introducing another term which is not easy to define or demonstrate. Further guidance on situations where application of a more "suspicious" approach might be appropriate and helpful (e.g. where there are indications of management bias).

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants in England and Wales (ICAEW)

However, we note in our main points above that we do not believe that further consideration should be given to requiring a 'suspicious mindset', despite the UK origins of this idea. None of those we consulted believe it would be possible for demonstrate a real difference in what auditors do. They did not think it right for auditors to assume that management assertions are wrong, because they are not, generally, and because of practical resource constraints. It is for these reasons that debates about a neutral mind-set moving to presumptive doubt, and a forensic stage of the audit - involving an attitudinal shift in which auditors modify their concept of professional scepticism and presume the possibility of dishonesty - have not been fruitful.

Furthermore, if a suspicious mindset was required only in certain circumstances, the translation issues would create an unacceptable level of confusion as both terms are often defined in terms of such other.

It would be a better use of IAASB's limited resources for it to consider how, in practical terms, auditors can challenge management, and how they can address confirmation bias.

Malaysian Institute of Certified Public Accountants (MICPA)

We disagree with the proposal to include a “suspicious mindset” as part of the auditor’s considerations around fraud in an audit of financial statements for all entities. The current practice, i.e. the exercise of professional skepticism is sufficient and adequate for the auditor’s considerations around fraud. Having robust fraud inquiries with management and those charged with governance are critical steps in the audit process, but approaching such discussions with a “suspicious mindset” could have the unintended consequences of putting the management and those charged with governance on the defensive and significantly diminishing the effectiveness of such inquiries.

Professional skepticism is inherently behavioural in nature. Actions that change behaviours are likely to have a more meaningful impact than adding a new term like “suspicious mindset”. Consequently, what is more important is reinforcing key concepts that will drive the right critical behaviours, including:

Tone at the top and commitment to quality

Bringing effective challenge to bear and not accepting explanations at face value

Avoid biasness when seeking and evaluating audit evidence

Q2a.1 - Yes\If yes, in what areas\Q2a.1-10 - Yes - Professional skepticism\02 Q2a.1-10 - Yes - Professional skepticism - Add stand-back requirement

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How professional skepticism is addressed in ISA 240, and whether the importance of exercising professional skepticism could be reinforced, for instance through the use of stronger language (such as “challenge, question and reconsider”) and a requirement to “stand-back” by taking into account all evidence obtained in forming conclusions at the end of the audit.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

It is our view that the IAASB should strengthen the requirements in the fraud and going concern auditing standards related to how auditors exercise professional skepticism. In addition to the specific observations outlined below, this could be accomplished by adding requirements similar those recently added in ISA 315 (revised), specifically, requirements to:

Evidence how contradictory evidence was considered and concluded on.

Stand-back and consider all audit evidence obtained in forming conclusions.

Committee of European Auditing Oversight Bodies (CEAOB)

For example, the IAASB should include requirements in ISA 240 that are similar to those recently added in ISA 315 (revised) i.e.:

A 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;

A requirement to “stand-back” by taking into account all audit evidence obtained in forming conclusions at the end of the audit.

Financial Reporting Council (FRC)

Responses to the assessed risks - emphasising that, in obtaining and evaluating audit evidence regarding possible management bias in making accounting estimates, the auditor shall also comply with the relevant requirements in ISA (UK) 540. Adding a stand-back requirement to evaluate, taking into account all relevant audit evidence obtained, whether corroborative or contradictory, whether the assessments of the risks of material misstatement at the assertion level due to fraud remain appropriate; and sufficient appropriate audit evidence has been obtained regarding the assessed risks of material misstatement due to fraud; and conclude whether the financial statements are materially misstated as a result of fraud.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

a requirement to “stand-back” by taking into account all audit evidence obtained in forming conclusions at the end of the audit.

4. Accounting Firms

Ernst and Young (EY)

Clarifying that the new standback requirement to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for identification and assessment of the risks of material misstatement also applies with respect to fraud risks

KPMG

Instead, since professional scepticism is fundamentally a mindset/ behaviour and therefore it cannot be improved by simply requiring auditors to be ‘more sceptical’, we recommend exploration of additional enhancements to the ISAs that emphasise how to exercise professional scepticism in respect of fraud during the audit, including when this is most critical, as well as how to do this. For example, ISA 240 could introduce a ‘stand back’ requirement to consider all audit evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence. This could be linked to the Examples of Circumstances that Indicate the Possibility of Fraud, set out in Appendix 3 of ISA 240. This requirement could emphasise the importance of discussion between members of the engagement team, similar to the Risk Assessment and Planning Discussion that is required by ISA 315 (Revised), as such matters may only be identified on a collective basis across the engagement team as a whole.

MNP LLP (MNP)

The revised ISA’s continue to emphasize professional skepticism within the standards such as ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. We believe that IAASB should continue to emphasize

professional skepticism and revise auditing standards to ensure that the standards foster a professionally skeptical mindset, such as the requirement to “stand-back” and evaluate all audit evidence obtained in forming conclusions.

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

The ‘neutral mindset’ currently demanded offers too little guidance to identify fraud risks and to evaluate audit evidence critically enough. As stated in §1.2, we believe that the knowledge and skills of the auditor must be increased. This is necessary to be able to adequately identify and assess fraud risks. In the case of identified fraud risks, auditors should be more suspicious of the authenticity and reliability of audit evidence obtained. The audit evidence obtained must clearly show how the auditor has implemented the suspicious mindset. We are also in favour of tightening the requirements for professional scepticism throughout the audit process, in accordance with revised ISA 315 and ISA 540. In addition, the introduction of the stand-back principle in ISA 240, as well as the inclusion of professional scepticism in relation to fraud risks as a mandatory point of attention in internal (engagement) quality assurance reviews, are in our opinion necessary. This applies to all audit engagements.

South African Institute of Chartered Accountants (SAICA)

If the IAASB were to introduce the concept of a “suspicious mindset”, clarity would be required as to what stage of the audit engagement this should be applied in relation to ISA 240. Specifically, clarity is needed around whether this should be at the stage where the auditor is in the process of identifying the fraud risk factors or at the stage where the auditor is designing and implementing the appropriate response to the risk factors. Audit engagements are by their nature risk-based engagements and auditors would be required to apply professional scepticism in a manner commensurate with their understanding of the entity and the risk assessment procedures performed. Furthermore, the auditor is required to apply professional scepticism throughout the engagement, and the risk assessment and responses re-designed if the auditor becomes aware of matters later in the audit that would have changed the assessments performed earlier. Therefore, in light of this, SAICA supports the concept of professional scepticism rather than the introduction of the concept of a ‘suspicious mindset’. The IAASB may explore other enhancements to the ISAs that emphasise the need to exercise professional scepticism in respect of fraud in an audit engagement. An example, could include introducing a ‘stand back’ requirement to consider all evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence.

Q2a.1 - Yes
Q2a.1-10 - Yes - Professional skepticism
Q2a.1-10 - Yes - Professional skepticism - Not biased towards corroborative or contradictory evidence

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

It is our view that the IAASB should strengthen the requirements in the fraud and going concern auditing standards related to how auditors exercise professional skepticism. In addition to the specific observations outlined below, this could be accomplished by adding requirements similar those recently added in ISA 315 (revised), specifically, requirements to:

Evidence how contradictory evidence was considered and concluded on.

Stand-back and consider all audit evidence obtained in forming conclusions.

Committee of European Auditing Oversight Bodies (CEAOB)

For example, the IAASB should include requirements in ISA 240 that are similar to those recently added in ISA 315 (revised) i.e.:

A 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;

A requirement to “stand-back” by taking into account all audit evidence obtained in forming conclusions at the end of the audit.

Financial Reporting Council (FRC)

Yes. We have made a number of enhancements in our proposed revision of ISA (UK) 240, which are summarised in the FRC's Consultation Paper and that we encourage the IAASB to take account of. These include enhancements in relation to:

Professional scepticism – reflecting changes made in the recent revisions of ISA 540 and ISA 315 to enhance the application of professional scepticism, including emphasising that risk assessment and further audit procedures are designed and performed in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. We have also clarified that the auditor shall remain alert for conditions that indicate a record or document may not be authentic; and require the auditor to investigate responses to inquiries of management, those charged with governance or others in the entity that appear implausible.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

However, as mentioned in our general comments, IAASA is of the view that the IAASB should strengthen the requirements regarding the exercise of professional scepticism in relation to fraud throughout the audit of financial statements. Specific requirements should be added to the conditions mentioned in paragraph 27.

For example, the IAASB should include requirements in ISA 240 that are similar to those recently added in ISA 315 (revised) i.e.:

a 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; and

The IAASB should also emphasise the importance for the auditor to investigate responses to inquiries of management and TCWG that are implausible or inconsistent, for example with the business rationale behind transactions.

ISA 240 paragraph 14 stipulates that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine and that if conditions are identified the auditor shall investigate further. The IAASB should require auditors to be more sceptical when evaluating audit evidence (including external confirmations) of crucial importance for obtaining reasonable assurance on specific issues.

4. Accounting Firms

MNP LLP (MNP)

The revised ISA's continue to emphasize professional skepticism within the standards such as ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement. We believe that IAASB should continue to emphasize professional skepticism and revise auditing standards to ensure that the standards foster a professionally skeptical mindset, such as the requirement to "stand-back" and evaluate all audit evidence obtained in forming conclusions.

6. Member Bodies and Other Professional Organizations

Malaysian Institute of Certified Public Accountants (MICPA)

We disagree with the proposal to include a "suspicious mindset" as part of the auditor's considerations around fraud in an audit of financial statements for all entities. The current practice, i.e. the exercise of professional skepticism is sufficient and adequate for the auditor's considerations around fraud. Having robust fraud inquiries with management and those charged with governance are critical steps in the audit process, but approaching such discussions with a "suspicious mindset" could have the unintended consequences of putting the management and those charged with governance on the defensive and significantly diminishing the effectiveness of such inquiries.

Professional skepticism is inherently behavioural in nature. Actions that change behaviours are likely to have a more meaningful impact than adding a new term like "suspicious mindset". Consequently, what is more important is reinforcing key concepts that will drive the right critical behaviours, including:

Tone at the top and commitment to quality

Bringing effective challenge to bear and not accepting explanations at face value

Avoid biasness when seeking and evaluating audit evidence

South African Institute of Chartered Accountants (SAICA)

If the IAASB were to introduce the concept of a "suspicious mindset", clarity would be required as to what stage of the audit engagement this should be applied in relation to ISA 240. Specifically, clarity is needed around whether this should be at the stage where the auditor is in the process of identifying the fraud risk factors or at the stage where the auditor is designing and implementing the appropriate response to the risk factors. Audit engagements are by their nature risk-based engagements and auditors would be required to apply professional scepticism in a manner commensurate with their understanding of the entity and the risk assessment procedures performed. Furthermore, the auditor is required to apply professional scepticism throughout the engagement, and the risk assessment and responses re-designed if the auditor becomes aware of matters later in the audit that would have changed the assessments performed earlier. Therefore, in light of this, SAICA supports the concept of professional scepticism rather than the introduction of the concept of a 'suspicious mindset'. The IAASB may explore other enhancements to the ISAs that emphasise the need to exercise professional scepticism in respect of fraud in an audit engagement. An example, could include introducing a 'stand back' requirement to consider all evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence.

Q2a.1 - Yes
If yes, in what areas
Q2a.1-10 - Yes - Professional skepticism
Q2a.1-10 - Yes - Professional skepticism - Consider scaled or spectrum approach for professional skepticism (i.e., continuum)

4. Accounting Firms

BDO International Limited (BDO)

No, the IAASB should not include the concept of 'suspicious mindset' as part of considerations around fraud. In our view, it would be far better to reinforce the concept of a spectrum of professional skepticism.

By applying a spectrum approach (which can also be linked to ISA 315 (Revised) assessment of risks), auditors and engagement teams can address those situations when facts and circumstances do require the level of skepticism to be 'dialled-up'. This may mean that in certain circumstances, it may be appropriate for an auditor and engagement team to apply a heightened level of professional skepticism that treats what they are being told or the information provided by the entity (IPE) with suspicion – but it is not the starting point for every engagement.

We believe there could be some value in providing an insight for other members of the financial reporting ecosystem about how auditors form their views about fraud by applying professional skepticism and conducting engagement team discussions and other activities throughout an audit. This could include providing more transparency about how we analyze indicators of fraud risk, look at information cumulatively, explore and examine contradictory information or IPE – and how, in combination, these could lead to heightened professional skepticism at one end of a spectrum. This may help to reduce the knowledge gap about what is meant by professional skepticism and how it is applied practically by auditors.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

We are not supportive of the suspicious mindset concept, preferring instead the continuum of skepticism referred to from the Global Public Policy Committee where a neutral mindset may be appropriate in certain low-risk circumstances, but presumptive or complete doubt may be warranted in other higher-risk circumstances. We believe this continuum approach is a more balanced and efficient approach to that of a suspicious mindset. We believe that overburdening the auditor's evidence obligations will actually limit their ability to properly perceive and detect material fraud as the auditor may be unable to see the big picture beyond the detailed evidence gathering.

Q2a.1 - Yes
If yes, in what areas
Q2a.1-10 - Yes - Professional skepticism
Q2a.1-10 - Yes - Professional skepticism - Add experience-level requirements for high risk areas

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators (CSA)

With respect to current requirements, we think there is an opportunity for enhanced education, training and development of professional skepticism for audit staff/teams. ISA 300 – Planning an audit of financial statements requires the involvement of key engagement team members in the audit planning and they have to establish the audit strategy with the appropriate experienced resources for high risk areas. To guide auditors, we think the Board should clarify the appropriate experience requirements for high risk areas. Specific requirements may be helpful to enhance education, training and development of professional skepticism when performing an audit.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

On the whole, the AUASB and its stakeholders did not agree that requiring a “suspicious mindset” would contribute to enhanced fraud identification when planning and performing the audit. Stakeholders agreed that the profession should try to determine how to better apply professional scepticism and encourage sceptical behaviour in the right circumstances.

Stakeholders perceived there to be a cultural aspect to audit team members being able to understand and implement the difference between suspicious mindset and professional scepticism. It is difficult to adopt a sceptical mindset – it is a behaviour that comes with experience and application in challenging, not just corroborating the evidence (i.e. it is natural to seek confirming rather than disconfirming evidence; anchoring on client numbers). Hindsight bias is always present in evaluating auditor performance after the fact. There may be a need for involvement from the more senior audit team members in performing work around fraud coupled with effective supervision and review.

Adopting a suspicious mindset may have a detrimental impact on the auditor’s relationship with management, which could in turn impact audit efficiency and effectiveness.

Q2a.1 - Yes If yes, in what areas\Q2a.1-10 - Yes - Professional skepticism\06 Q2a.1-10 - Yes - Professional skepticism - Emphasis on exercise of professional skepticism (Enhance or clarify or strengthen how it is applied in practice)

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee also believes that serving the public interest through a transparent and high-quality assurance product where professional scepticism is applied in its delivery should be prioritised over concerns about “the audit relationship” (page 27).

International Organization of Securities Commissions (IOSCO)

Finally, we believe that there should be a heightened focus on professional skepticism in light of the changes in how audits and interactions with management are performed in the current “virtual” environment and to the extent that some of these virtual operating cadences become a permanent part of the audit.

The Paper on page 6 asks respondents whether “requiring a ‘suspicious mindset’ [would] contribute to enhanced fraud identification when planning and performing the audit? Why or why not?” as well as “Should the IAASB enhance the auditor’s considerations around fraud to include a ‘suspicious mindset’? If yes, for all audits or only in some circumstances?” In our view, there may be unintended consequences when introducing new terminology (especially if similar in nature to professional skepticism which is universally accepted), which could widen the expectation gap or create confusion for auditors of when and how to apply a suspicious mindset versus professional skepticism during the course of an audit. Rather, we believe that professional skepticism should be emphasized and enhanced to “raise the bar” in how it is applied in practice (to evolve Professional Skepticism to an enhanced version 2.0).

Therefore, we encourage the IAASB to consider how they can work with other stakeholders in the financial reporting system to collectively reinforce the need for, and enhance, professional skepticism throughout an audit, including an increased willingness to challenge management. The auditor’s attitude, especially by those in charge of the audit, should be emphasized in the standard as it is important to set the tone at the

top for their teams and that attitude should become more heightened as risks are identified during the planning and performance of an audit. An example of where others are contributing to the financial reporting system in this public interest area is the IESBA's Role and Mindset of a Professional Accountant project. From a public interest perspective, it is an auditor's responsibility to promote confidence and integrity of capital markets through the performance of high quality audits. Therefore, auditors having a mindset with an enhanced level of vigilance for both the risk of fraud and potential signs of fraud is imperative to audit quality and ultimately investor protection. This can also be true in connection with evaluating audit evidence received from management, where professional skepticism and a thoughtful risk-based evaluation (e.g., nature and significance of the account and related evidence obtained) is necessary. We believe that this can be achieved through, for example, application material that includes "triggering events" where an auditor's skepticism should be elevated and therefore the nature, timing, and extent of audit procedures are tailored in response to the risk identified.

2. Regulators and Audit Oversight Authorities

Canadian Securities Administrators (CSA)

Question 2(c) – Enhanced fraud identification by inclusion of a "suspicious mindset"

We have some concerns about the use of the term "suspicious mindset" as this term is not defined in the Discussion Paper. The introduction of a new term could exacerbate the expectations gap. Furthermore, since the "professional skepticism" concept, as described in IAS 200 – Overall objectives of the independent auditor and the conduct of an audit in accordance with Canadian Auditing Standards, already covers the identification and the assessment of material misstatement, whether due to fraud or error, it is unclear how using the term "suspicious mindset" would contribute to enhanced fraud identification. However, we do think that there is an opportunity for the IAASB to enhance and evolve the concept of "professional skepticism" and reconsider how it should be applied throughout the audit. Notwithstanding the above, if a "suspicious mindset" concept is proposed in the standard, it should be well defined and clearly distinguished from the term "professional skepticism."

Committee of European Auditing Oversight Bodies (CEAOB)

However, as mentioned in our general comments, the CEAOB is of the view that the IAASB should strengthen the requirements regarding the exercise of professional scepticism in relation to fraud throughout the audit of financial statements. Specific requirements should moreover be added in the conditions mentioned in paragraph 28.

Financial Reporting Council (FRC)

We therefore encourage the IAASB when strengthening ISAs 240 and 570 to take account of the enhancements we have made in the standards. This will help address the identified expectation gaps in relation to fraud and going concern and enhance the quality and rigour of audits.

Independent Regulatory Board for Auditors (IRBA)

findings raised in inspection reports in South Africa, there is no clarity as to what is giving rise to this. It is possible that the underpinning cause could be a technical misunderstanding or misapplication of the concept of professional skepticism, but it may also be behavioural (as implied in the Discussion Paper). This needs to be further investigated. If the underpinning issue is technical clarity, this can be addressed through introducing additional requirements around how to apply professional skepticism consistently in practice

(like the enhancements introduced in other revised standards). If the issue is behavioural, additional monitoring and enforcement may be required, on top of expanded requirements.

As it pertains to inherent limitations, observations of the IAASB-IAESB-IESBA Professional Skepticism Working Group have highlighted challenges to the application of professional skepticism in practice that may equally apply to the application of a “suspicious mindset”, such as:

Environmental factors that influence the ability of the auditor to exercise professional skepticism, for example, tight deadlines, resource constraints and culture.

Personal traits and biases, e.g. independence, confidence, an inquisitive nature and an individual's response to stress.

Lack of business acumen in a complex and ever-changing business environment.

Thus, introducing a new mindset concept into the standards may not address the underpinning practical application or behavioural issues.

The IESBA has just approved the Role and Mindset revisions to the Code which include a new requirement for professional accountants to have an “inquiring mind” and differentiate having an inquiring mind from the exercise of professional skepticism when performing audits, reviews and other assurance engagements. The implication of this is two-fold:

The new requirements may already contribute to the identification of fraud without the need to introduce a third mindset concept.

Introducing a third mindset concept further complicates the application and enforcement of application – both of which are already challenging to do under the current “professional skepticism” requirement.

We note that the FRC is driving a “challenge culture” campaign in response to its audit quality inspections results analysis that identified “ineffective management challenge”, in the execution of professional skepticism, as a critical root cause for poor quality results. Monitoring its further research and outputs from the conference to be hosted in June 2021 may provide further insight into practical professional skepticism application challenges and how the requirements could be enhanced/expanded to incorporate some of these “challenge” concepts.

Therefore, we recommend that the IAASB should prioritise the work commenced by the Professional Skepticism Working Group and continue to monitor existing research and developments in this area before concluding on whether introducing an additional mindset concept is justified. We, however, agree that more is needed when it comes to professional skepticism requirements about identifying, assessing and responding to fraud risk factors.

3. National Audit Standard Setters

Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

Suspicious mindset

While we agree that it is important for the auditor to demonstrate professional scepticism at all stages of the risk-based audit process, it would not be possible to begin an audit by questioning the integrity of management or assuming that any information provided by management is inaccurate. We encourage the

IAASB to more clearly emphasize the importance of applying professional scepticism rather than introducing new concepts and additional requirements.

4. Accounting Firms

CohnReznick (CR)

No, we do not believe the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements. Instead, we recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

Recently issued AICPA SAS 142. We recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

Crowe (CG)

Rather than requiring a “suspicious mindset” attention should be concentrated on developing “professional scepticism”. Introducing new concepts is potentially confusing and could broaden rather than narrow the expectations gap. Stakeholders might misunderstand what “suspicious mindset” means.

The concentration ought to be on developing “professional scepticism”.

Nexia International (NI)

We do not believe the auditor should have enhanced or more requirements regarding fraud in an audit of financial statements. Instead, we recommend the IAASB emphasise the concept of professional scepticism, similar to how the AICPA Auditing Standards Board did in its recent update to AU-C 500 with various mentions and examples of the concept.

Audits are not designed to detect and/or prevent a fraud from occurring. Audit procedures and rules seek to determine whether a company’s financial statements are fairly stated without any material discrepancies. They are not aimed at detecting and remediating a fraudulent occurrence. Rather the focus is detecting material misstatement.

PKF International Limited (PKF)

ISA requirements could also be enhanced on other areas of fraud, for example:

regarding how the auditor applies professional skepticism to the identification of fraud,

risk identification and assessment procedures on fraud,

communications to Those Charged with Governance on procedures and conclusions relating to fraud, and

on the commentary on fraud provided in the Auditor’s report.

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

In terms of approach, introducing the concept of a “suspicious mindset” does not appear to be useful or practical and might not address the expectation gap adequately. Instead, building on the existing concept of professional scepticism would be more effective.

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Examine areas where the auditing standards could be enhanced to further enhance the application of professional scepticism, including the use of random testing. The correct execution of the risk assessment stage of the audit was seen as vital to correctly addressing fraud in particular. However, before revision is made to the standard, it is important to gain greater evidence on the current methods used in financial statement fraud and the areas of the financial statements which are most often targeted so that any proposed revisions are targeted.

Examine areas where the auditing standards could be enhanced to further enhance the application of professional scepticism, including the use of random testing. The correct execution of the risk assessment stage of the audit was seen as vital to correctly addressing fraud in particular. However, before revision is made to the standard, it is important to gain greater evidence on the current methods used in financial statement fraud and the areas of the financial statements which are most often targeted, so that any proposed revisions are targeted.

The focus should therefore be in narrowing any performance gap that exists in exercising professional scepticism rather than introducing new concepts.

We therefore consider that a 'suspicious' mind set would not necessarily contribute to enhanced fraud identification and could cause more harm than benefit. However, it would be beneficial for firms to embed forensic accounting and fraud awareness throughout the training of their audit staff which in turn, will result in having future professionals better equipped to detect and report actual or suspected fraud because of their enhanced set of skills and mind set. Firms should also continue to monitor the performance of their staff regarding professional scepticism and find ways to mitigate any gaps.

CPA Australia (CPAA)

The need for professional scepticism is raised adequately in ISA 240, although the requirement "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine" suggests a lower threshold of scepticism than that which should be applied. Therefore, we suggest strengthening this requirement.

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

Yes

In the auditing standards related to fraud and the going concern: ISA 240 and ISA 570, the requirements are established for the professional to act with professional skepticism.

We consider it necessary to continue reviewing the requirements for the application of professional skepticism, as this is the center of the audit practice.

Institute of Chartered Accountants of Scotland (ICAS)

Firstly, we believe it is essential that it is remembered that the primary responsibility in relation to the prevention and detection of fraud rest with the directors of the entity. Therefore, we are supportive of a more holistic approach, that will involve additional requirements on those charged with governance. However, such an approach is not within IAASB's mandate which is solely focussed on setting standards for auditors. Therefore, whilst we believe there is scope for enhancement of the auditor's procedures, these would be

most beneficial in an environment in which additional responsibilities are also being placed on those charged with governance of an entity.

That said, we do believe there is room for improving extant ISA 240 and would flag the proposals in the recent consultation by the UK FRC which proposed a number of enhancements to the standard. These including those intended to further promote the exercise of professional scepticism by the auditor and the addition of new paragraphs requiring that the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform particular procedures and, that if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further.

Pan African Federation of Accountants (PAFA)

Yes, PAFA supports the notion that as part of their planning process, auditors be required to evaluate and report on management's processes and controls to prevent and detect fraud, further to that, enhancements are required in the area of professional skepticism throughout the audit process.

Q2a.1 - Yes
If yes, in what areas
Q2a.1-10 - Yes - Professional skepticism
Q2a.1-10 - Yes - Professional skepticism - Emphasis on exercise of professional skepticism (When auditing areas involving significant judgments)

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

The CEAOB is of the view that the IAASB should strengthen the requirements regarding the exercise of professional scepticism in relation to fraud and going concern throughout the audit of financial statements. Indeed, professional scepticism is essential to audit quality and should be applied by auditors with sufficient rigor in all circumstances. The CEAOB would also like to point out that professional scepticism is a requirement set by EU law (Directive 2006/43/EC, Article 21.2), particularly when the auditor reviews management estimates relating to future cash flow relevant to the entity's ability to continue as a going concern.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

IAASA is of the view that the IAASB should strengthen the requirements regarding the exercise of professional scepticism in relation to fraud and going concern throughout the audit of financial statements. Indeed, professional scepticism is essential to audit quality and should be applied by auditors with sufficient rigor in all circumstances. We would also like to point out that professional scepticism is a requirement set by EU law (Directive 2006/43/EC, Article 21.2), particularly when the auditor reviews management estimates relating to future cash flow relevant to the entity's ability to continue as a going concern.

6. Member Bodies and Other Professional Organizations

CFO Forum

Although the main responsibility for the prevention and detection of fraud rests with management, the CFO Forum agrees that the auditor should have enhanced requirements regarding fraud, particularly in the areas of mindset and business understanding. This is especially relevant where client operations are of a technical nature and require some level of experience. The auditor should apply an appropriate level of skepticism to both management responses and evidence provided, to support identifying material fraud. The suspicious

mindset is key, which in combination with a good understanding of the business will certainly contribute to enhanced fraud identification.

Institute of Chartered Accountants in England and Wales (ICAEW)

Those we consulted were concerned about the exercise of professional scepticism and noted:

the number of prior year adjustments evident on a change of audit partner or firm, suggesting that professional scepticism needs to be addressed;

that more work needs to be done by IAASB on the complex issues associated with corroborative and contradictory evidence, and the extent to which auditors can and should be required to seek out the latter.

Q2a.1 - Yes
If yes, in what areas
Q2a.1-10 - Yes - Professional skepticism
Q2a.1-10 - Yes - Professional skepticism - Emphasis on exercise of professional skepticism (When evaluating authenticity of audit evidence)

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

ISA 240 paragraph 14 stipulates that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine and that if conditions are identified the auditor shall investigate further. The IAASB should require auditors to be more sceptical when evaluating audit evidence (including external confirmations) of crucial importance for obtaining reasonable assurance on specific issues.

Financial Reporting Council (FRC)

Yes. We have made a number of enhancements in our proposed revision of ISA (UK) 240, which are summarised in the FRC's Consultation Paper and that we encourage the IAASB to take account of. These include enhancements in relation to:

Professional scepticism – reflecting changes made in the recent revisions of ISA 540 and ISA 315 to enhance the application of professional scepticism, including emphasising that risk assessment and further audit procedures are designed and performed in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. We have also clarified that the auditor shall remain alert for conditions that indicate a record or document may not be authentic; and require the auditor to investigate responses to inquiries of management, those charged with governance or others in the entity that appear implausible.

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

The 'neutral mindset' currently demanded offers too little guidance to identify fraud risks and to evaluate audit evidence critically enough. As stated in §1.2, we believe that the knowledge and skills of the auditor must be increased. This is necessary to be able to adequately identify and assess fraud risks. In the case of identified fraud risks, auditors should be more suspicious of the authenticity and reliability of audit evidence obtained. The audit evidence obtained must clearly show how the auditor has implemented the suspicious mindset. We are also in favour of tightening the requirements for professional scepticism throughout the audit process, in accordance with revised ISA 315 and ISA 540. In addition, the introduction of the stand-

back principle in ISA 240, as well as the inclusion of professional scepticism in relation to fraud risks as a mandatory point of attention in internal (engagement) quality assurance reviews, are in our opinion necessary. This applies to all audit engagements.

Q2a.1 - Yes
Q2a.1-10 - Yes - Professional skepticism
Q2a.1-10 - Yes - Professional skepticism - Emphasis on exercise of professional skepticism (When fraud or suspected fraud is identified)

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Whether the requirements and guidance sufficiently convey the message that the exercise of increased professional skepticism and further audit procedures (such as varying the nature, timing and extent) are necessary if there are signals that indicate an elevated risk of a material misstatement due to fraud.

3. National Audit Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

The IAASB should determine whether to enhance the requirements. Specifically, we recommend that the following areas should be thoroughly considered, which are included in the “Standard to Address Risks of Fraud in an Audit” (hereinafter referred to as the “Standard to Address Risks of Fraud”) that have already been introduced in an audit of financial statements of publicly traded companies in Japan.

Enhancing and adding requirements depending on circumstance in relation to fraud

It should be clarified that auditors must differentiate responses depending on the differences in circumstances in relation to fraud, when designing and performing audit procedures to respond to the risks of material misstatement due to fraud. For example, the standard may differentiate the circumstances in relation to fraud as follows:

Circumstances that indicate the possibility of a material misstatement due to fraud are not identified (normal circumstances);

Circumstances that indicate the possibility of a material misstatement due to fraud are identified (Standard to Address Risks of Fraud section II paragraph 10); and

After evaluating the identified circumstances that indicate the possibility of a material misstatement due to fraud, the auditor determines that a suspicion of a material misstatement due to fraud exists (Standard to Address Risks of Fraud section II paragraph 12)

Since the responses to risks of material misstatement due to fraud and the level of professional skepticism vary significantly depending on the circumstances in relation to fraud, we believe that such differentiation of circumstances are useful. When an auditor determines that a suspicion of a material misstatement due to fraud exists, we believe that it would be effective to require the auditor to exercise increased professional skepticism and perform more in-depth audit procedures.

The Standard to Address Risks of Fraud does not use the term “suspicious mindset.” When identifying circumstances that indicate the possibility of a material misstatement due to fraud, however, the auditor shall exercise increased professional skepticism, determine whether there is any suspicion of a material misstatement due to fraud, and perform the audit procedures to address such a suspicion. We believe it is

appropriate to require the level of professional skepticism to be raised in certain phases when the likelihood of fraud has become higher.

However, we do not agree that “suspicious mindset” be implemented as a basic stance of audits, requiring audit procedures to be performed based on the assumption that fraud exists in all circumstances. If audits were conducted on the assumption that fraud exists in all circumstances, the performance of audits might be hindered, such as difficulty in obtaining information during the course of audits, and the quality of audits would decline as a result.

In addition, we believe it is necessary to carefully consider whether it is appropriate to introduce the different term “suspicious mindset” in addition to “professional skepticism.” If the new different term is introduced even though the term “professional skepticism” already exists in ISAs, it may cause confusion.

Q2a.1 - YesIf yes, in what areas

Q2a.1-11 - Yes - Engagement quality review procedures

2. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes, at risk assessment and substantive levels and also at Engagement Quality Review level.

3. National Audit Standard Setters

Japanese Institute of Certified Public Accountants (JICPA)

Engagement quality control review when the auditor has determined that a suspicion of a material misstatement due to fraud exists

It would be useful for the firm to establish policies and procedures requiring an engagement quality control review to be conducted as to whether the modified audit plan and audit procedures are appropriate and whether sufficient appropriate audit evidence has been obtained when the auditor has determined a suspicion of material misstatement due to fraud exists (Standard to Address Risks of Fraud section III paragraph 7). When the auditor has determined that a suspicion of material misstatement due to fraud exists, the engagement quality control review may be different from that under circumstances where no suspicion of material misstatement due to fraud has been identified, in terms of the scope of the review, as well as the experience and authority of the reviewer.

Malaysian Institute of Accountants (MIA)

Engagement quality review procedures

The IAASB may enhance the ISAs by including an explicit requirement for all fraud risk areas to be considered and reviewed by engagement quality reviewer before the issuance of the auditor’s report.

The IAASB may consider including specific guidance in ISQM 2 Engagement Quality Reviews on the expectation that the engagement quality review involves evaluating the judgments made in relation to fraud risks and any instances of identified or suspected fraud.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

As noted in the DP, in certain jurisdictions, such as in Japan, such procedures have already been implemented and based on the feedback received in our outreach, we suggest that the IAASB should

explore this further. The introduction of additional engagement quality control review procedures was considered one of the easier developments to implemented compared to the other potential areas that were included in the DP. A starting point could be following up with jurisdictions that have already implemented such procedures and consider whether post implementation reviews suggest that these procedures were effective.

Federacion Argentina de Consejos Profesionales de Ciencias (FACP)

We consider that in the matter of fraud the auditor should deepen the quality control review procedures of the audit work. The additional information to provide will be from your planning, work programs and work papers. This should be submitted to the requirements of control agencies. For this, it is essential to regulate it through these control bodies.

4. Are there any other matters the IAASB should consider as it progresses its work on fraud and going concern in an audit of financial statements?

We consider that in the matter of fraud the auditor should deepen the quality control review procedures of the audit work. The additional information to provide will be from your planning, work programs and work papers. This should be submitted to the requirements of control agencies. For this, it is essential to regulate it through these control bodies.

9. Individuals and Others

Christian Minarriz (CM)

Enhanced quality control requirements: I think that the proposed requirements are reasonable and may be explicitly included in the ISAs.

Q2a.1 - Yes\If yes, in what areas\Q2a.1-12 - Yes - Rebuttable presumption of fraud risk in revenue recognition

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

How the rebuttable presumed fraud risk in revenue recognition is understood in practice.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

whether certain criteria indicating when and how to rebut the presumption that there is a risk of material misstatement due to fraud in revenue recognition should be included in ISA 240;

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

whether certain criteria indicating when and how to rebut the presumption that there is a risk of material misstatement due to fraud in revenue recognition should be included in ISA 240;

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Presumed risk of fraud in revenue

In our view, the IAASB should consider exploring other areas in addition to revenue, such as for example, expenditure which particularly in light of Covid-19 may be more susceptible to fraud. This may be more relevant in the case of LCEs where for example, targeting reduced tax liability is more common, particularly in owner managed businesses. Similar views were raised by stakeholders during the IAASB's roundtable discussion on fraud and going concern for LCEs.

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements especially in regard to the audit of public interest entities. The enhancements should be made especially in regards to the audit of risky areas such as revenue, expenditure and assets. The auditors should always endeavor to critically audit the clients' financial reporting policies and controls when investigating any material misstatements due to fraud. The auditors may consider engaging a forensic specialist in engagement team discussion and/or engage the specialist to perform additional procedures on areas that may lead to material misstatements.

Institute of Chartered Accountants in England and Wales (ICAEW)

There should be more focus in the ISA on simple frauds in revenue recognition facilitated by collusion with third parties.

8. Academics

Auditing Standards Committee of the Auditing Section of the American Accounting Association (ASC)

In summary, when it comes to fraudulent financial reporting and auditing, research suggests that:

The CEO and CFO are the most likely perpetrators of fraudulent financial reporting.

Fraudulent financial reporting is most likely to involve revenue misstatements, and computer hardware and software is the most common specialized industry setting for fraudulent financial reporting.

Fraudulent financial reporting is associated with weak corporate governance and weak entity-level controls.

Auditors often have incentives not to be skeptical.

Auditors sometimes document fraud red flags and fail to follow up adequately.

The fraud triangle places relatively little emphasis on the person committing fraud.

Auditors who use a fraud diamond practice aid (which includes a focus on the CEO's capability to commit fraud) assess fraud risk higher than those who use a fraud triangle practice aid.

There are promising fraud prediction models that can highlight higher-risk situations.

Based on the research findings, we believe that auditor requirements related to fraud should call attention to the role of the CEO and CFO, revenue misstatements, technology companies, governance and internal control strength, auditor disincentives to be skeptical, risks of auditors documenting but not pursuing fraud red flags, the impact of assessing management's capability to commit fraud, and the potential to statistically predict fraud risk. Such auditor focus can help to address the performance and evolution gap components of the expectation gap.

Q2a.1 - Yes\If yes, in what areas\Q2a.1-13 - Yes - Requirements for when fraud is detected or elevated risk of fraud exists

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Whether the requirements and guidance sufficiently convey the message that the exercise of increased professional skepticism and further audit procedures (such as varying the nature, timing and extent) are necessary if there are signals that indicate an elevated risk of a material misstatement due to fraud.

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Suspicion of fraud

Once fraud is confirmed, it is possible to make the appropriate adjustments to the financial information and conclude the audit. However, confirming the fraud is onerous. The practical challenge lies in investigating and resolving mere suspicion and determining the impact that this has on the audit. The standard does not distinguish between responding to and resolving suspicion of fraud versus responding to and resolving confirmed fraud. The audit risk in this “in-between phase” is thus high.

We, therefore, propose:

As a starting point, that the standard should mandate an investigation to be performed, where fraud is suspected. For example, there should be an option for either management/those charged with governance to investigate the suspicion (as ultimately identifying and responding to fraud is their responsibility); OR for the auditor to investigate the suspicion on behalf of management/those charged with governance (with the use of forensic specialists identified by the auditor, if needed, and at the client’s expense). This is because it is only possible to design an appropriate audit response when the issue is properly understood. It may, in the absence of an investigation, be impossible to get to a “sufficient appropriate audit evidence” conclusion. If the investigation is refused, the auditor may then be able to modify the opinion, based on a scope limitation or take other appropriate action.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

Auditor’s responses in case of signals that indicate the possibility of a material misstatement due to fraud

IAASA is of the view that the auditor should adopt a more robust approach when there are signals that indicate the possibility of a material misstatement due to fraud. Such signals could include for example lack of appropriate “tone at the top” at the audited entity’s management level, relevant information received through whistle-blowing systems or public information.

The IAASB should determine what further audit procedures the auditor should perform in such circumstances.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

what is required of the auditor when fraud is detected and the impact on the planned audit approach which includes links to ISA 250 Consideration of Laws and Regulations in an Audit of a Financial Report and ISA 260 Communication With Those Charged With Governance.

Japanese Institute of Certified Public Accountants (JICPA)

Consultation when the auditor determines that a suspicion of a material misstatement due to fraud exists

It would be useful for the firm to establish policies and procedures for consultation so that the members of the engagement team undertake consultation with others at the appropriate level within or outside the firm (e.g. appropriate resources of the firm who have relevant technical expertise and experience), as necessary, when the auditor has identified a circumstance that indicates the possibility of a material misstatement due to fraud or the auditor has determined that a suspicion of a material misstatement due to fraud exists (Standard to Address Risks of Fraud section III paragraph 6).

Q2a.1 - Yes\If yes, in what areas\Q2a.1-14 - Yes - Revisit how inherent limitations are described in standard

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

In order to narrow these gaps, the Committee suggests a review of current audit standards to identify the source of the expectations gaps. For example, the basic requirement of an audit “to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error” (ISA 200 para 11) may be weakened by ISA 240 on fraud (para 6) which states that “the potential effects of inherent limitations [on the auditor’s ability to detect material misstatements]

misstatement resulting from fraud” without clearly stating that

are particularly significant in the case of the auditor’s

responsibilities are not affected by these limitations.

International Association of Insurance Supervisors (IAIS)

Issues relating to Fraud

Clarity of objectives and the responsibility of auditors: The IAIS considers that revisions to auditing standards should clarify and emphasise that the objectives of the auditor in relation to fraud include obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. This seems clear from the requirement of an audit “to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error” (ISA 200 para 11). However, this message may appear to be diluted by the statements such as that in ISA 240 that “the potential effects of inherent limitations [on the auditor’s ability to detect material misstatements] are particularly significant in the case of misstatement resulting from fraud” without clearly stating that the auditor’s responsibilities are not affected by this increased difficulty.

Although we agree that the identification of material misstatements may be more difficult for material fraud than for material error, auditing standards and auditors should nevertheless strive to ensure that both are detected. The IAASB should therefore clarify the responsibility of auditors and their role in identifying and mitigating material risks from fraud. It is important for auditors to consider how fraud may affect the risk of material misstatement or the quality and persuasiveness of the audit evidence that is gathered. It may also be helpful for auditors to consider the extent to which there might be signs in governance, internal controls or corporate culture that might point to the increased risk of both financial and non-financial fraud that are material.

International Forum of Independent Audit Regulators (IFIAR)

International Standard on Auditing (ISA) 200 sets out the overall objective for the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The clarity of the objectives of any standard is critical to achieving consistent applications of the requirements and related guidance for its specific subject matter. The IAASB should specifically consider whether the introductory language in ISA 240 and, in particular, the section on “Inherent Limitations of an Audit in the Context of Fraud,” undermines the objective of the audit.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

Fraud

Responsibilities of the auditor

Auditors are required to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud or error (ISA 200). Yet the emphasis in ISA 240 on the limitations of the audit when it comes to detecting fraud has contributed to a lack of clarity about what exactly is expected of auditors in this area. The IAASB should revisit whether the limitations described continue to accurately reflect the capabilities of auditors in today’s world, including considering advancements in audit technology over the past few years. Supplemental text should be added to emphasize that the limitations do not diminish the auditor’s responsibility to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement due to fraud.

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

AASB views and recommendation

Responsibility for the prevention and detection of fraud

We recognize it is important for ISA 240 to outline the challenges auditors face in identifying fraud, however the introduction to the standard could be enhanced to explain how the requirements provide the basis for the auditor to fulfill their responsibilities related to fraud. This could be achieved by clearly articulating the auditor’s responsibilities related to material fraud in the introduction. The extant material explaining what difficulties the auditor may face could be moved to application material. This would help to strengthen the tone of the standard.

Revisions to ISA 240

What our stakeholders told us

During our outreach, we heard concerns regarding several sections and requirements in ISA 240.

Responsibility for the prevention and detection of fraud

Regulators are concerned that the tone set in the introduction of ISA 240 negates the auditor’s responsibilities related to fraud. Specifically, paragraph 5 of ISA 240 notes the inherent limitations of an audit, stating that while the audit may be properly planned and performed, some material misstatements

may not be detected. Regulators believe this statement and others in the introduction section of ISA 240, downplay the responsibility that auditors have for the detection of fraud by stating right from the beginning that fraud may go undetected.

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

Fraud committed with or by third parties

The discovery of a material misstatement as a result of fraud committed in collusion with one or more third parties is, in principle, within the scope of an audit and the responsibility of the auditor. The collusion may cause the auditor to assume that the audit evidence obtained is convincing, when in fact it is incorrect. Therefore, the auditor may not detect such a misstatement even though the audit has been properly planned and performed. This is an inherent limitation of an audit. However, the auditor cannot use this starting point as a rationalisation for performing no or only a limited analysis - based on relevant fraud risk factors - of the risk of such a misstatement.

One example of a fraud committed by third parties is that the entity is a victim of business e-mail compromised fraud (also known as 'CEO fraud') or ransomware. The auditor is responsible for identifying and assessing risks from such fraud and for appropriately responding to them. These risks relate to the (possible) impact of such fraud, such as paying a ransom, a claim or a fine, but also, for example, reputation damage. A material misstatement may exist if such risks are incorrectly not taken into account in preparing the financial statements. So again, in his risk analysis, the auditor will have to pay due attention to (the possible consequences of) such risks and, where applicable, formulate an appropriate response.

In addition, the auditor's natural advisory role may entail that he may be expected to alert management to such risks. This certainly applies, but not only, to auditors from small and medium-sized companies. The question to what extent auditors may be held accountable for their duty of care if they do not point out such risks to management and/or those charged with governance is beyond the scope of this response.

Q2a.1 - Yes|If yes, in what areas|Q2a.1-15 - Yes - Third party fraud

4. Accounting Firms

Ernst and Young (EY)

Fraud related to third parties

We believe it is important to recognize that there are limitations to detecting fraud when an instance of fraud involves third parties. This however does not detract from the auditor's responsibility to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

In our view, additional emphasis should be placed in ISA 240 on the auditor's responsibilities around fraud related to third parties, and the fact that the nature of fraud risks specific to third parties, with possible collusion with management, and the nature of the auditor's response may need to differ from risks of fraud internal to the entity.

We suggest the IAASB consider enhancing audit procedures that address fraud risks related to third parties as follows:

As part of obtaining an understanding of the entity and its environment, including the entity's internal control and significant classes of transactions, the auditor should consider whether and where third parties are involved.

Where involved, the auditor's understanding could be expanded to include understanding management's processes and controls over the involvement of the third party, when such involvement represents a risk of material misstatement. In addition, the auditor could also consider the third party's objectivity and integrity, including whether the third party is a related party.

When audit evidence is obtained from third parties, the auditor should evaluate the validity of the evidence received. Refer to our comments below related to ISA 500 Audit Evidence for further details.

In regard to the question posed in the Discussion Paper related to the auditor's role around third party fraud that does not result in a material misstatement of the financial statements, but may have a severely negative impact on the entity, we refer to our response above that addresses auditor responsibilities for non-material fraud.

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

Although the auditor should not have any responsibility with regards to identification of fraud related to third parties, the auditor cannot ignore it if it comes to their attention. Fraud related to third parties already detected by management, those charged with governance, reported on by the media, or investigating authorities should be considered in terms of the impact that it may have on the risk of misstatement of the financial statements as well as its possible impact on the assessment of the integrity of management. There should also be a consideration of whether the auditor has any professional or ethical responsibility to alert another authority of such instances. To manage public perception the auditor could also consider including reference to investigations currently underway with regards to their auditees in their audit reports.

6. Member Bodies and Other Professional Organizations

Kriton (KNL)

Fraud committed with or by third parties

The discovery of a material misstatement as a result of fraud committed in collusion with one or more third parties is, in principle, within the scope of an audit and the responsibility of the auditor. The collusion may cause the auditor to assume that the audit evidence obtained is convincing, when in fact it is incorrect. Therefore, the auditor may not detect such a misstatement even though the audit has been properly planned and performed. This is an inherent limitation of an audit. However, the auditor cannot use this starting point as a rationalisation for performing no or only a limited analysis - based on relevant fraud risk factors - of the risk of such a misstatement.

One example of a fraud committed by third parties is that the entity is a victim of business e-mail compromised fraud (also known as 'CEO fraud') or ransomware. The auditor is responsible for identifying and assessing risks from such fraud and for appropriately responding to them. These risks relate to the (possible) impact of such fraud, such as paying a ransom, a claim or a fine, but also, for example, reputation damage. A material misstatement may exist if such risks are incorrectly not taken into account in preparing the financial statements. So again, in his risk analysis, the auditor will have to pay due attention to (the possible consequences of) such risks and, where applicable, formulate an appropriate response.

In addition, the auditor's natural advisory role may entail that he may be expected to alert management to such risks. This certainly applies, but not only, to auditors from small and medium-sized companies. The question to what extent auditors may be held accountable for their duty of care if they do not point out such risks to management and/or those charged with governance is beyond the scope of this response.

Q2a.1 - YesIf yes, in what areas\Q2a.1-16 - Yes - Unpredictability procedures

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Whether auditors are appropriately incorporating elements of unpredictability in audit procedures when addressing risks of material misstatements.

Q2a.1 - YesIf yes, in what areas\Q2a.1-17 - Yes - Other areas

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

An additional area of focus to mitigate the expectations gap could be for the IAASB to consider whether the requirements in auditing standards result in auditors providing the same level of assurance in relation to both material fraud and error. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management of responsibilities.

the entity, though that does not lessen the auditor's

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

The IAASB should also emphasize the importance for the auditor to investigate responses to inquiries of management and TCWG that are implausible or inconsistent (for example with the business rationale behind transactions).

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

how to further emphasise in ISA 240 the importance to make inquiries of the internal audit function and to review internal audit reports and documentation related to fraud;

3. National Audit Standard Setters

Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

Another element of the solution to rebuild trust on those difficult issues of fraud and going concern may also lie outside of the financial statements audit, in mandating the auditors to conduct specific engagements directed at identifying fraud and going concern weaknesses. At a time when huge institutional investors need to reinforce their assurance on the viability and trust of the entities where they invest their clients' money, we believe that the auditor can play a role. We believe that such an objective involves more broadly all the stakeholders of today's financial reporting ecosystem. Entities, those charged with their governance, investors, public oversight bodies, standards setters and auditors have an important role in improving external reporting in relation to fraud and going concern.

As mentioned in question 1, the prevention and detection of fraud within a company is primarily the responsibility of management under the oversight of those charged with the governance. Together with other members of the corporate governance and reporting ecosystem, auditors also play an important role in the detection of material frauds (but in a second step).

When a fraud extends to a broad network across management and third parties, it is very difficult to find the evidence and may take more than a normal audit to find them. We believe that detecting fraud goes far beyond the auditing profession but implies a broader collaboration among members of the financial reporting ecosystem. Large-scale fraud is mostly very well thought through and very difficult to detect. Auditing is an important step but it is not the only one. Nor should it be, if we are to maximize the number of opportunities to prevent or detect fraud as efficiently as possible. In this regard we believe that preventing and detecting fraud needs a collective effort, depending on a joint effort by all relevant parties, i.e. (1) corporate governance and management, (2) public oversight bodies, (3) standards setters and (4) auditors.

Corporate governance and management

Role of boards and management

The primary responsibility for preventing and detecting fraud lies with management as overseen by boards of company. Consequently, they establish systems and structures in order to manage fraud risks. Managing fraud risks is vital for achieving a company's operational, reporting and compliance objectives. It is also a key aspect for shareholder protection and management's role as their agent.

We consider that legislation, at any appropriate level, whether national, regional or federal should provide that companies' risk management include anti-fraud mechanism. These mechanisms should set out specific procedures and clear responsibilities for boards, i.e. audit committees and management boards respectively. Legislation could require the entities to publicly disclose a statement about the effectiveness of this program and relevant controls. This disclosure could be made as part of a broader statement included in a company's annual report for example. Moreover, auditors could be required, in a separate assurance engagement to:

Assess the effectiveness of these systems and controls to prevent and detect material fraud in the financial statements;

Express an opinion on the boards and management board's statement;

Report their conclusions to the boards and to the public.

4. Accounting Firms

BDO International Limited (BDO)

A new potential assurance service (and accompanying report) addressed on fraud risks and specifically designed to focus on management/TCWG or users of the financial statements informational needs in respect of fraud in an entity.

5. Public Sector Organizations

New Zealand Auditor General (NZAG)

Enhanced external reporting by auditors

We agree with the comments made by the IAASB in the discussion paper that the synergies between auditors, standard-setters and regulators and audit oversight bodies is critical to the effective functioning of the financial reporting ecosystem.

We believe that some matters related to the expectation and performance gap can be addressed through stronger direction from regulators and audit oversight bodies, combined with a strong focus of independence on auditors, as discussed earlier.

The IAASB may be aware of legislation in South Africa that requires “reportable irregularities” observed by an auditor for certain categories of audit to be communicated to a regulator – a form of mandatory whistle-blowing.

We raise this because whistle-blowing can play an important role in enhancing the effectiveness of corporate governance. In particular, legislation mandating that auditors’ blow the whistle can assist in overcoming agency-related costs and improve confidence in external audit.

The IAASB could consider setting requirements for auditors to report externally on particular irregularities.

6. Member Bodies and Other Professional Organizations

CPA Australia (CPAA)

We note that other types of engagements are likely to be more effective in preventing and detecting fraud. An assurance engagement on the effectiveness of the entity’s internal controls over financial reporting is helpful in reducing fraud risks. However, more directly targeted at material and non-material fraud would be an assurance engagement on management’s assessment of fraud risks and their response.

Q2a.1 - Yes\If yes, in what areas\Q2a.1-18 - Enhanced guidance or application material instead of changes to requirements

1. Monitoring Group

International Association of Insurance Supervisors (IAIS)

Auditor mindset: The difference between a suspicious mindset and a sceptical one is not adequately explained, and so it is not clear that this is a helpful or necessary distinction. Although the auditor mindset is important, we suggest that this issue might be better addressed through clarification and training in relation to the application of existing requirements rather than the creation of a new concept.

International Forum of Independent Audit Regulators (IFIAR)

We are in support of the overall objective of an audit as described in the auditing standards, but at the same time we encourage the IAASB to examine the benefits of strengthening the standards or providing additional guidance as set out in the remainder of this letter. Our comments are not intended, at this early stage of the IAASB project, to provide definitive direction. IFIAR will further assess its position based on the evidence gathered during the next steps of the process.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board (CPAB)

A more pragmatic solution would be to use stronger language in the ISAs, such as challenge, question, and re-consider, to strengthen definitions and application guidance related to exercising professional skepticism.

It is surprising to us that the concept of auditors challenging management only appears once in the ISAs. The reference is in the application guidance of ISA 540, Auditing Accounting Estimates and Related Disclosures, paragraph A95 which deals with situations when auditors identify changes in estimation methods, significant assumptions and the related data from prior periods.

Integrating the concept of effective challenge of management in application guidance in each of the relevant ISAs on how to apply professional skepticism, including ISA 240, would require auditors to assume a more active stance when critically evaluating the evidence obtained from management. This contrasts to the more passive definition of professional skepticism in ISA 200 which requires auditors to remain alert to, among other things, audit evidence that contradicts other audit evidence obtained. Effective challenge of management may also be more closely aligned with how the public perceives the role of the auditor.

Incorporating an element of unpredictability

Research suggests that when auditors use consistent procedures year over year, those procedures become predictable and, accordingly, less effective at detecting fraud in the financial statements. Too often we see auditors adhere to the requirement to incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures as a check-the-box exercise. The requirement could be enhanced by providing more examples in the application guidance on how auditors could design procedures to incorporate unpredictability in audits to respond to financial statement level fraud risks.

Presumed fraud risk in revenue recognition

Revenue and revenue growth are often key performance measures for entities. ISA 240 would be enhanced by including more application guidance on how to attribute the presumed fraud risk in revenue recognition and when it's appropriate to rebut it.

ISA 240 requires auditors to evaluate which types of revenue, revenue transactions or assertions give rise to presumed risk of fraud in revenue recognition. However, we often see auditors limit their attribution of the presumed risk to the revenue cut-off assertion without evidencing a critical evaluation of whether the presumed risk also applies to other assertions or revenue transactions. More application guidance will help improve audit quality in this area.

We also continue to identify a high rate of rebuttals in our inspections with a 25 per cent rebuttal rate identified in our thematic review. We consider that rate to be too high based on the risk profiles of the audits we typically select for inspection. Including additional examples in ISA 240 that illustrate when it is appropriate to rebut the fraud risk presumption in revenue recognition will help improve audit quality.

Independent Regulatory Board for Auditors (IRBA)

Auditor Unable to Continue the Engagement

Enhancements should be made to the Auditor Unable to Continue the Engagement section, providing more explicit guidance on what the auditor is expected to do where there are suspicions of management fraud and other indicators that bring into question the integrity and ethical values of management and those charged with governance, post client acceptance, and which circumstances would be severe enough to allow the auditor to resign (the practical application of ISA 240.39). The extant paragraph is ambiguous in its referral to "exceptional circumstances" and, as such, there is no real clarity regarding under what circumstances the auditor would be allowed, or even encouraged, to resign from a client where there are serious suspicions of fraud and no progress is made in resolving these suspicions.

Evaluation of Audit Evidence

ISA 240.36 states: “If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud.”

As it pertains to distinguishing between whether an identified misstatement has occurred because of fraud or error, there is no application guidance in ISA 240.

ISA 450.A1 states that examples of misstatements arising from fraud are provided in ISA 240 and cross-refers practitioners to ISA 240.A1-A7. However, these example “characteristics of fraud” rely heavily on the auditor’s ability to identify “intent”, for example, “intentional omission”, “intentional misapplication” and “overriding controls intentionally”. In practice, it is very hard to establish a person’s true “intentions”.

As such, we believe that the enhancement of application guidance is required to better enable the auditor to identify misstatements that result from fraud and, in turn, design an appropriate response.

There is scope for many changes to be effected within the ISAs (see above). There is also scope for additional assurance engagements outside the scope of the financial statement audit, for example, separate extended reporting engagements, to respond to fraud that does not impact the financial statements. Refer to question 2a. We also encourage the development and release of non-authoritative guidance to address some of the practical challenges highlighted (where it is not possible to address these through amendments to the standards).

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

The IAASB should also consider other clarifications and enhancements to ISA 240 and ISA 570 to improve those standards. Some examples of areas that should be examined by the IAASB are highlighted below in the sections dedicated to fraud and going concern. Please note that our proposals are not intended, at this stage, to be a complete list of all potential enhancements that we consider should be made to these standards.

National Association of State Boards of Accountancy (NASBA)

NASBA does not believe that requiring a “suspicious mindset” would contribute to enhanced fraud detection when planning and performing an audit. Rather, we are concerned that the term’s adversarial connotation could damage the auditor/client relationship, which requires full disclosure and candor regarding all aspects of the client’s business.

We believe “professional skepticism” remains the appropriate frame of mind for financial statement auditors and support the profession’s efforts to operationalize its application. We believe enhancing the guidance in ISA 240 when fraud is suspected would be helpful.

Non-material frauds may be indicative of a corporate culture that considers them to be accepted behavior and, therefore, may indicate other frauds of greater consequence relevant to the audit exist. The role of the person committing the fraud and other qualitative factors should be considered.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

more guidance on how “unpredictable audit procedures” address fraud risk; and

With technological advances there may be a greater capacity to detect fraud through data analytics and other analytical tools. The AUASB encourages the IAASB to consider how auditors can better employ emerging technologies to enhance auditor performance regarding fraud as part of the IAASB’s Technology

working group project. Feedback from our stakeholders is that the IAASB's initiative to provide non-authoritative guidance on how auditors may use technology in harmony with auditing standards can be particularly helpful in this area. However, it was also noted that technology is not a universal remedy for this issue - an important human element also comes into play. There is an opportunity for all involved - management and boards, auditors and regulators - to focus more on corporate culture and behaviours to support fraud detection. Appropriate risk identification and in-depth knowledge of the entity, its industry and the environment it operates in are required to observe fraud-indicating red flags and feed into a fraud risk assessment process, and it is unrealistic to expect the auditor alone can be responsible for all of these aspects.

Canadian Auditing and Assurance Standards Board (AASB)

We recommend the IAASB consider:

Adding application material to ISA 240 to explain how auditors can apply and document their application of professional skepticism in the audit - Professional judgment is required to appropriately apply professional skepticism in response to specific audit circumstances. Professional skepticism is a mindset held by the auditor and is used in assessing audit evidence. Additional training and guidance to assist auditors in developing this mindset would be beneficial.

Developing non-authoritative guidance on how to apply professional skepticism in remote audits (when an audit is completed offsite) - The importance of professional skepticism is heightened in a remote audit environment because certain indicators of potential fraud (e.g., uncommon behaviour displayed by management) may be less apparent to the auditor.

Updates to the Appendices

We support our stakeholders' recommendation that Appendix 1 and 2 in ISA 240 should be updated. Appendix 1 should consider whether some fraud risk factors, such as management incentives, require additional emphasis in order to help auditors focus their work. Also, new examples could be added to Appendix 2 to illustrate how audit analytics can be used to address fraud risks.

Updates to the Appendices

Stakeholders believe Appendix 1 and 2 in ISA 240 should be updated to better reflect current business practices. Also, practitioners believe examples of how audit analytics could be used to address fraud risks should be added to Appendix 2.

Unpredictability of audit procedures

We recognize that paragraph A37 of ISA 240 explains why elements of unpredictability are important. However, we believe that application material could be added to explain how audit procedures can be modified to introduce unpredictability based on the fraud risks identified at the financial statement or assertion level. For example, adding application material related to auditing accounting estimates, since they can often represent fraud risks when significant judgment is involved. Also, examples should be added to highlight how auditors of smaller entities can tailor audit procedures to make them less predictable. Generally, there is less opportunity to introduce unpredictability on smaller audits given there is less opportunity to adjust the timing of audit procedures or perform procedures at different locations, as suggested in paragraph A37 of ISA 240.

While we agree that auditors would benefit from examples that incorporate an element of unpredictability, we also share our stakeholders' view that providing a list of procedures may result in a checklist approach

and reduce the element of unpredictability. It may be constructive to expand on the examples in the standard, as well as develop non-authoritative guidance that contains case studies. Fraud cases could be used to illustrate how unpredictability can be introduced in audit procedures. Academic research has shown that reading fraud stories can help auditors develop better knowledge of fraud versus using checklists. Use of examples and case studies can help to build this knowledge.

Unpredictability of audit procedures

Regulators expressed concern that auditors tend to use the same audit procedures year over year when addressing fraud. They believe that when audit procedures become predictable, they may be ineffective in identifying efforts to conceal fraudulent financial reporting. Practitioners are concerned that if the standard provides a list of procedures to explain how to introduce unpredictability, it may result in a checklist approach and negate the purpose of the procedures.

Also, we believe audit quality could be enhanced through fraud training for auditors, and guidance on the use of forensic specialists. We encourage the IAASB to consider:

Developing guidance on when it is appropriate to involve forensic specialists and what type of procedures they can assist with - Academic research indicates that auditors could benefit from some assistance with identifying risk factors related to fraud, and as well, auditors struggle with how to respond to those risks. Using forensic specialists to assist auditors with these steps would enhance the audit procedures related to fraud risks conducted on the engagement. Providing guidance on when to involve forensic specialists in the audit would aid in building consistency in the type of audit procedures conducted and encourage their use at appropriate phases of the audit; and

In addition, auditors are using technology to analyze large sets of financial data, as well as exploring the application of artificial intelligence in their audit procedures. The IAASB should consider developing non-authoritative guidance to explain how audit analytics may be used in journal entry testing and provide examples to illustrate how testing can be tailored to address identified fraud risks.

However, practitioners have expressed the need for non-authoritative guidance to clarify the auditor's responsibilities in relation to third-party fraud, as required in the extant standard. Auditors struggle with how to address fraud risks that involve third parties and what audit procedures they can perform.

The Discussion Paper considers several possible enhancements to the auditor's role related to fraud and going concern. As discussed in our response to the specific questions, we support the IAASB exploring the following:

For fraud:

developing guidance related to use of forensic specialists;

making certain revisions to ISA 240; and

developing application material or non-authoritative guidance to support the application of professional skepticism.

Also, additional application material is needed to clarify how auditors determine when it may be appropriate to rebut this presumption, for example, by providing factors to consider. Use of these factors to decide when to rebut the presumption will help to build consistency. The standard could also provide more and better examples of when it may be appropriate to rebut this presumption since the current example in paragraph A31 of ISA 240, in our view, is simplistic.

Hong Kong Institute of Certified Public Accountants (HKICPA)

Stakeholders we engaged with generally agreed that there should be enhanced guidance on when to engage forensic specialist, but this should not be mandatory in every circumstance.

We consider it would be helpful for IAASB to develop guidance for circumstances in which audit teams should engage or consult with forensic specialists (For example, a short-seller report that challenges the result of the company or there is fraud allegation).

Malaysian Institute of Accountants (MIA)

Audit evidence

With advances in technology, alterations to documents are difficult to detect in many circumstances. Hence, a specific focus on enhancing the guidance in ISA 500 Audit Evidence related to authenticity of documents would be useful (e.g. the required work effort related to evidence obtained from external sources and how technology could be used to obtain audit evidence directly from third parties for better assurance).

Fraud related to third parties (e.g., cyber-attacks resulting in theft of customer information)

We do not agree that the scope of the financial audit should be expanded to specifically cover fraud related to third parties as this additional scope may be beyond the knowledge and expertise of the auditor.

Additional emphasis should be placed in ISA 240 on the auditor's responsibilities around fraud related to third parties (e.g. evaluating the validity of audit evidence obtained from third parties), and the fact that the nature of fraud risks specific to third parties, with possible collusion with management, and the nature of the auditor's response may differ from risks of fraud internal to the entity.

More guidance is needed in relation to considering management authority on entering into contracts and agreements with third parties and risks related to misuse of power of attorney privileges.

Use of forensic specialist and other specialist (such as data analytics specialist) on audits

Forensic specialists can provide increased insight into the fraud risks of an entity and can also assist with the development of procedures to respond to fraud risks.

We suggest including guidance in ISA 240 that forensic specialists may be involved in the auditor's identification, assessment and/or response to fraud risks. The forensic specialists should only be called upon if there are clear fraud risk indicators as opposed to a blanket mandate of their involvement in the audit of financial statements.

The effectiveness of using forensic specialists should be considered in the context of the objectives of an audit of financial statements. The expectation gap may widen if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work. There should be a clear distinction between the use of specialists in an audit of financial statements than that of a specialist performing a forensic investigation.

The scalability of such a requirement for less complex audits would also need to be determined.

We are not supportive of requiring the auditor to apply a "suspicious mindset" when planning and performing the audit due to potential unintended consequences result from management and TCWG being less likely to cooperate fully with auditor's requests and hence, impact the effectiveness of the two-way communication. It may so change the whole landscape of the purpose and the objectives of audit.

We believe that the concept of professional scepticism remains the appropriate concept to apply and the IAASB should continue to emphasise the concept of “maintaining healthy professional scepticism”. The auditors should obtain sufficient appropriate audit about whether material misstatements exist rather work based on “suspicious mindset” from the start of the audit as financial statement audits are not forensic in nature.

However, in certain circumstances when the auditors have doubt on the integrity of the management or frauds have been identified, the auditor may need to scale up their professional scepticism to the level of “suspicious mindset”. Therefore, we suggest that ISA 240 be enhanced to include guidance on scaling professional scepticism, including how facts and circumstances should affect the level of professional scepticism applied.

We also believe more could be done in ISA 240 to emphasise risks related to auditor bias, in particular guidance specific to how such biases could negatively affect the effectiveness of the auditor’s identification, assessment, and response to fraud risks.

With this in mind, we are supportive of the IAASB’s project on fraud to develop enhanced connections between ISA 240 and the other ISAs, which could also involve the development of implementation guidance that can bring together and describe these connections in a single document. This would help to drive more consistent application of the current requirements.

[New Zealand Auditing and Assurance Standards Board \(NZAuASB\).pdf](#)

At our roundtable event, 28% of participants agreed that the auditors should have enhanced or more requirements with regards to fraud in an audit of financial statements, 14% thought that the requirements are appropriate and 52% believed that a separate engagement would be a more appropriate response (7% of participants had no opinions).

The overall view was that auditing standards related to fraud may not require an overhaul, as underlying principles are appropriate, but that the public interest may instead require certain relevant standards, in particular ISA 240, to be updated, clarified and enhanced. Currently there is some confusion about what is expected from auditors in ISA 240. For example, ISA 240 includes as an example of misappropriation of assets: an employee who colludes with a competitor by disclosing technological data in return for payment . It is unclear how an auditor is expected to identify this type of fraud. It is likely that only forensic investigation procedures (such as surveillance of the employee’s activities) are capable of identifying such instances of fraud.

Also, some of the specific requirements in ISA 240 may require updating. For example, our outreach activities and discussion with auditors and auditor oversight bodies indicates that auditors have not identified any instances of fraudulent financial reporting identified by journal testing in regulated audits over the past few years. This indicates a need to reassess the effectiveness and relevance of required journal testing in light of practical experience. The focus on journal testing may be detracting from other high-risk areas.

Participants in our outreach also strongly supported training auditors in forensic skill and fraud awareness as well as providing further guidance in ISA 240 on when to involve forensic specialists. Some of the participants noted that forensic specialists are often only involved when there is a suspected instance of fraud. However, forensic specialists could be involved in the risk assessment stage of an audit to enhance auditors’ identification and assessment of fraud risks and in designing and implementing appropriate responses to address the identified risks. This could be especially relevant for engagements with a high risk of fraudulent financial reporting (e.g. issuers with complex structures operating in industries with complicated

financial reporting practices and opportunity for management to commit financial reporting fraud). Accordingly, the NZAuASB recommends including additional application guidance in ISA 240 to elaborate how involving forensic specialists may enhance the fraud risk assessment and corresponding response.

With technological advances there may be a greater capacity for the auditor to detect fraud through data analytics and other analytical tools. The NZAuASB encourages the IAASB to consider how auditors can better employ emerging technologies to enhance auditor performance regarding fraud. This would presumably be done as part of the IAASB's technology project. Feedback from our stakeholders is that the IAASB's initiative to provide non-authoritative guidance on how auditors may use technology in harmony with auditing standards can be particularly helpful in this area. However, it was also noted that technology is not a panacea and that technology would have been unlikely to have helped auditors to detect the Carillion and Wire Card frauds. Appropriate risk identification and in-depth knowledge of the entity, its industry and the environment it operates in are required to identify fraud-indicating red flags.

Royal Netherlands Institute of Chartered Accountants (NBA)

We do not consider it necessary to require forensic specialists to be involved in every audit by default. We consider it useful involving them where deemed necessary in a specific audit when there are specific risks or for example in a first time audit. A trigger mechanism could be helpful. A broader solution would be to train the audit staff mandatory and permanently specific on identifying fraud risks and respond to these risks. Experienced auditors should assist in this and audit staff should be given the possibility to build up experience. Sharing knowledge and exchanging lessons learnt from specific cases will be useful. Guidance in this respect in or outside ISA 240 will be useful.

4. Accounting Firms

BDO International Limited (BDO)

Other potential suggestions included more guidance for auditors to supplement the ISAs in the following circumstances:

When frauds are discovered – what should the auditor do next in terms of their audit strategy or reporting mechanisms? Specifically a contrast was drawn between the potential for fraud and the recently established requirements related to Non Compliance with Laws and Regulations (NOCLAR) which were perceived to have more clarity in terms of next steps required of auditors.

When an engagement has an Engagement Quality Control Reviewer appointed, whether there specific areas that the EQCR Reviewer should focus on in respect of fraud as part of their review.

CohnReznick (CR)

We believe enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We encourage the IAASB to consider interpretive guidance in regard to fraud. By providing examples of simple and complex frauds, along with how these frauds may affect risk assessment and an auditor's response, may provide appropriate real-world guidance to auditors of substantially all experience levels.

Instead, we recommend the IAASB emphasize the concept of professional skepticism, similar to how the AICPA Auditing Standards Board (ASB) did in its recent update to AU-C 500 with various mentions and examples of the concept.

Deloitte (DTTL).pdf

Applying a risk-based approach to determine what audit procedures are most appropriate to be performed is a foundational principle of the auditing standards—“bolting-on” required procedures that do not have a basis in risks identified and assessed on a particular audit is not consistent with that approach.

DTTL recommends that the IAASB re-emphasize that current standards require specific tailoring of audit procedures to respond directly and appropriately to increased risks due to fraud and issues related to going concern, as well as provide non-authoritative guidance in the form of leading practice examples of such tailoring.

Consideration of specialist involvement (e.g., forensic, debt restructuring, etc.).

The IAASB may consider developing implementation guidance that provides considerations or examples regarding the potential use of specialists in an audit of the financial statements related to fraud or going concern matters (e.g., forensic specialists assisting with risk assessment procedures or helping to respond to identified instances of fraud or debt advisory; restructuring specialists evaluating management’s plans to mitigate going concern issues).

For example, related to forensic specialists, the guidance may be based on evaluation of risk—as fraud risk increases, greater consideration is warranted regarding whether to involve a forensic specialist. Providing examples demonstrating when fraud risk may increase could be helpful, such as substantial debt from unusual sources or on unusual terms; the entity engages in unique, highly complex and material transactions; or management is dominated by one strong personality. Additionally, it may be helpful to provide areas where a forensic specialist can assist as part of the audit response, for example, participating in the risk assessment process, fraud brainstorming session, management inquiries, the design and/or evaluation of testing related to identified risks (e.g., management override/journal entries) and to follow up on identified or suspected fraud. In addition, the IAASB may develop examples for how forensic specialists can be integrated into ongoing audit-related training which provides auditors more exposure to fraud considerations to apply to their audit engagements.

DTTL does not believe that adding a requirement for the use of a forensic specialist or a specialist to evaluate management’s plans to mitigate going concern issues is appropriate, as this is not a risk-based approach, and involvement of a specialist is not necessary on every audit. It is also important to note that, in the current state, it may not be feasible to fulfill a requirement to include such types of specialists on every audit due to lack of available resources with the necessary training and certification. A consideration for colleges and universities is to add courses to their curriculum in these specialized areas and include related elements to the minimum requirements for professional certification of auditors.

Enhance client acceptance and continuance procedures.

We recommend that the IAASB develop examples of criteria or analysis, built on the principles of ISA 315 to thoroughly understand the entity and its environment, that can better inform client engagement acceptance or continuance decisions by auditors. For example, criteria such as the entity’s ownership and governance structures, management characteristics, compliance risk, and key performance indicators, when taken together may be indicators of an entity being more susceptible to fraud. If the audit of the entity is accepted by an audit firm, specific procedures should be developed to address such risks.

Enhancements to ISAs and staff guidance on fraud

While DTTL believes principles underlying the current audit standards are still relevant and the current requirements appropriate, we support the IAASB’s efforts to understand the efficacy and implementation of its standards in practice and strive for continuous improvement. We also welcome proposals to enhance the

auditor's ability to identify issues related to fraud and going concern. To this end, it is strongly recommended that additional application material or staff implementation guidance be created by the IAASB (e.g., case studies or examples) in the areas noted below to assist auditors in their risk assessment process and applying the current requirements in a globally consistent manner:

Implementation guidance for the currently required audit procedures to address management override of control.

In some audits, the procedures performed to address management override of controls has become a compliance activity to fulfill the requirements in ISA 240. The IAASB could develop implementation guidance such as staff alerts to share leading practices in refining the testing of journal entries and other adjustments for evidence of possible management override of control, management bias, or material misstatement due to fraud. Implementation guidance could include emphasis on identifying (1) what matters most to the entity, management, and other stakeholders (i.e., key performance indicators), (2) a detailed understanding of who receives what financial information during the reporting process (e.g., flash reports, sales pipeline, etc.), and (3) when such financial information is received, thus enhancing focus where there is more risk. Implementation guidance may provide helpful education and clarity in this area and could be utilized by multiple constituents including management, TCWG, investors, and auditors.

Consideration of Key Performance Indicators (KPIs) as part of fraud risk assessment.

The IAASB can create application material or implementation guidance demonstrating how auditors may consider an entity's KPIs, including identification of KPIs and how data and information involved in their calculation may be manipulated by management or TCWG, combined with linking such considerations into the fraud brainstorming process, management fraud inquiries, and refining journal entry testing procedures. In creating implementation guidance, the IAASB may consider building case studies through analysis of known frauds and how understanding KPIs may have helped identify the risk related to the fraud. As part of these case studies, it is important to note the strong link between management fraud and tone at the top issues, especially related to "achieving targets at any cost."

In addition, the IAASB may provide guidance for unique risks that may be present for a listed entity versus a private entity by including examples of KPIs more commonly used by investors and how auditors may consider analytics that are based on both internal and external information sources that are commonly available for listed entities.

Fraud inquiries with management and others.

An important part of informing an auditor's fraud risk assessment is gathering information through effective fraud inquiries. Implementation guidance may be helpful to an auditor's consideration of how to tailor fraud inquiries and identify appropriate individuals within the entity for such inquiries. Information gathered from fraud inquiries of management helps to provide additional context on KPIs as well as leads to more effective fraud brainstorming and other procedures. Implementation guidance could demonstrate how these activities may work together.

Improve the efficacy of the fraud brainstorming discussion.

We recommend providing guidance on how to reinvigorate the usefulness and effectiveness of the engagement team's fraud brainstorming discussion to continue to enhance its function as an engaging activity which considers the changing business environment and triggers new ideas in how to identify potential fraud.

Potential use of internal and external information and analytics.

The extent of information and data available both within and outside the entity is ever-increasing and auditors can use this to their advantage in increasing the effectiveness of audit procedures. The IAASB can provide examples of information that may be gathered and analytics that may be applied to such information to assist in identifying areas where the risk of material misstatement related to fraud may be elevated. Exemplifying data such as (1) statements and communications on the entity website and (2) analytics using external information such as trend analyses, comparison to peers or industry benchmarks, or media sentiment analysis, may aid in identification of fraud risk factors. This is an area the IAASB's Technology Working Group may be able to help with generating ideas and examples.

In October 2020, International Ethics Standards Board for Accountants released revisions to the International Code of Ethics for Professional Accountants to better promote the role and mindset expected of all professional accountants. Among other matters, the revisions require accountants to have an inquiring mind when undertaking their professional activities and emphasize the importance of being aware of the potential influence of bias in their judgments and decisions. DTTL recommends that the IAASB allow for these revisions to take effect (31 December 2021), monitor implementation, and then consider whether there is a need for further guidance specific to implementation within the auditing standards.

In addition, it is important to note that professional skepticism is already well-defined and foundational in the auditing standards and, while it does not mean to be automatically suspicious, it does mean a questioning and unassuming mind and a critical assessment of all audit evidence, including contradictory evidence. A "suspicious mindset" is a negative starting position and implies that there has been previous wrongdoing, which is not justified in all audits. Introducing this new concept into the auditing standards could result in a change in the auditor/management relationship to an adversarial one that may inhibit the free flow of information between entity personnel and the auditor, which would not be in the public interest. Effective professional skepticism means using professional judgment to question information which contradicts other evidence obtained, seems to be indicative of management bias, or just doesn't "feel right."

Rather than providing a new term in the auditing standards, the IAASB could work with the International Accounting Education Standards Board to develop implementation guidance and/or educational materials to improve the consistency of application of professional skepticism and the "inquiring mind" and aid in reducing risks associated with the "performance gap," especially by highlighting areas which likely require increased professional skepticism (for example, via short videos that demonstrate how heightened professional skepticism led to the discovery of fraud and how the use of techniques such as data analytics, understanding and evaluating KPIs, and understanding the financial close and reporting process may have helped to discover the fraud). Further, many CPA and Chartered Accountant licensing jurisdictions already require periodic training regarding ethics, and complementary training to educate and reinforce the importance of a skeptical mindset would be beneficial.

Increase linkage of requirements in individual ISAs to the identification of fraud.

Many of the procedures already required in standards other than ISA 240 assist in the identification of fraud risk factors and risks of material misstatement due to fraud, as well as in designing procedures to detect fraud. Providing examples of the linkage of requirements across the ISAs, and demonstrating how "fraud risk assessment" is integrated into "all areas of the audit that are related to identification and response to the risk of material misstatement" would provide helpful background for auditors in understanding the consideration of fraud throughout the audit process.

Increased emphasis by regulators or listing exchanges on internal controls over financial reporting, including management's fraud risk assessment process, for listed entities may necessitate the development of additional requirements by auditing standard setters.

While audit procedures to assess the "design and implementation" of relevant controls are currently required by the ISAs, such requirements do not currently extend to obtaining evidence that such controls are operating effectively (aside from responding to risks of material misstatement where substantive procedures alone are not sufficient (as required by the ISAs) or for audits performed pursuant to standards of the PCAOB and certain other jurisdictions with internal control over financial reporting ("ICFR") requirements). Considering that management and TCWG hold the primary responsibility to prevent and detect fraud and that such prevention and detection requires controls, the effective design and operation of such internal controls are fundamental to accurate financial reporting. As noted in our response to Question 1, enhanced requirements for management and TCWG related to ICFR, including related to fraud such as anti-fraud programs and controls, coupled with certification backed by assurance from auditors, could effect change by driving the auditor to test operating effectiveness, not only as part of a control reliance strategy, but also as a means for reporting on an entity's ICFR. Should such regulation occur it would be appropriate for the IAASB to modify the auditing standards for consideration of such regulations. Some examples of implementation guidance include examples or case studies to provide enhanced direction to auditors regarding key tenants of auditing an entity's fraud risk assessment for effectiveness, specifically including enhanced understanding of the entity's tone at the top and highlighting participation of TCWG in evaluation and monitoring of antifraud programs and controls.

It is important to note that the advent of new technologies, from cloud computing to artificial intelligence, as well as changes in the cost and accessibility of these types of digital tools, have enabled entities to increasingly incorporate automation into the design of both business processes and control functions. The digitization of financial data and records, connection of supply chains to blockchain, and use of complex information systems have increased the number of areas where "substantive testing alone would not provide sufficient appropriate audit evidence" and expand the need and importance for auditors to closely evaluate the entity's controls underpinning these areas. Implementation guidance which addresses the continuously rising effect of technology on the audit and heightens the auditor's focus on internal control, including IT controls, related to these advancements would prove extremely helpful.

Key audit matters related to fraud.

While most auditors would likely include fraud-related items as a key audit matter, DTTL recommends providing examples of descriptions to include in the audit report of the robust audit response made in connection with the key audit matter.

Rebuttable presumption related to fraud risks over revenue.

The rebuttable presumption of fraud risks related to revenue was originally included in ISA 240 because multiple financial statement frauds committed in that time period involved manipulation of revenue. DTTL suggests that the IAASB consider providing modern examples of fraud risks related to revenue, as well as how to more closely pinpoint the fraud risk to a specific aspect of revenue transactions and develop targeted procedures to respond to that risk. In addition, it may be useful to provide examples of entities like emerging growth companies which have little to no revenue, and what accounts other than revenue might be worthy of particular attention related to fraud—to match the entity's circumstances with the accounts most likely to be manipulated.

Unpredictability of audit procedures.

Regulators have expressed concern that auditors tend to repeatedly perform the same audit procedures when addressing fraud. They believe that when audit procedures become predictable, the effectiveness of the procedure is undermined. DTTL suggests that the IAASB consider developing guidance on how the auditor can tailor procedures based on the fraud risks that are relevant to the entity and provide examples on how to vary procedures from year to year to introduce an increased level of unpredictability.

Tone at the top.

Given the tight connection between poor tone at the top and management or employee fraud, we encourage the IAASB to provide additional guidance to auditors on how to address situations where senior management is dominated by strong personalities or deal with entities that foster a culture focused on the achievement of positive financial results no matter the cost.

We recommend that the IAASB provides guidance to help auditors determine which controls are relevant to the audit—particularly those controls that relate to fraud risk management and evaluating going concern.

Ernst and Young (EY)

Yes. We recognize that auditors need to evolve how they perform audits to address fraud to assist in addressing the expectation gap and to enhance their capabilities to detect material fraud.

We are supportive of the IAASB revising the ISAs to provide auditors with a stronger framework to support the detection of fraud. Although ISA 240 is the specific ISA that addresses fraud, requirements across the suite of ISAs support the auditor's identification and response to fraud risks. One of the objectives of the IAASB's project on fraud should be to develop enhanced connections between ISA 240 and the other ISAs, which could also involve the development of implementation guidance that can bring together and describe these connections in a single document. Developing such implementation guidance as well as implementation guidance on ISA 240 will assist with addressing any performance gap that may exist today as it will drive more consistent application of the current requirements.

We see an opportunity for meaningful enhancements to the ISAs in relation to the auditor's work related to fraud, including the effect of corporate culture on fraud risk, circumstances when forensics specialists may be involved in the audit, fraud risks related to third parties and related parties, and an overall enhanced linkage of the auditor's work across the ISAs related to the identification and response to fraud risk.

We believe it is critical that the auditor has an end-to-end view of fraud risk across the audit, from risk assessment procedures through to designing and executing procedures to address risks of material misstatement due to fraud and consequential communications. We have included specific comments below on how the fraud risk identification and assessment process could be better integrated with the enhanced risk assessment process established by ISA 315 (Revised).

We have organized our response below by the specific topics that are identified in the Discussion Paper as areas of interest to the IAASB. These comments are followed by other specific topics and suggestions where we believe there are opportunities for enhancing the auditor's procedures in relation to fraud.

Corporate culture

We strongly agree with the IAASB placing importance on an entity's culture and the effects of that culture on fraud prevention and fraud deterrence. ISA 315 (Revised 2019) requires an evaluation of whether management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior. We believe that auditors would benefit from more guidance on the aspects of an entity's culture to specifically consider in order to perform a more effective evaluation.

With respect to enhancements to the auditor's procedures, we suggest providing guidance on the consequences, including communication with those charged with governance, of any weaknesses in the control environment identified in conjunction with the required evaluation of the entity's culture for the risk of management override and the identification of other fraud risks.

We are not supportive of requiring that the auditor apply a "suspicious mindset" when executing procedures to identify and respond to fraud in all cases for all audits. We believe that the concept of professional skepticism remains the appropriate concept to apply. Throughout the audit, the auditor should scale professional skepticism based on its understanding of the entity, the risk assessments performed, and the circumstances encountered through the audit.

For the auditor's procedures related to fraud, we would agree that a heightened level of professional skepticism is warranted, and in certain circumstances (e.g., when concerns about management integrity have been identified) the auditor may need to scale up their skepticism to the level that one may equate with a "suspicious mindset". This approach is consistent with the continuum of professional skepticism described in the Global Public Policy Committee publication, *Enhancing Auditor Professional Skepticism*. Therefore, we suggest an approach whereby ISA 240 be enhanced to include guidance on the scaling of professional skepticism, including how facts and circumstances affect the level of professional skepticism applied.

Should the IAASB determine to continue to pursue a requirement for a "suspicious mindset" as the default mindset for audit procedures related to fraud, we believe that specific consideration needs to be given to the consequences, including potential unintended consequences. For example, requiring the auditor to act with suspicion in all cases may result in management and those charged with governance being less likely to cooperate fully with auditor's requests and may also impact the effectiveness of two-way communication with management and those charged with governance, including fraud discussions. We suggest there be consideration given to whether this could impact the attractiveness of the profession.

In addition to enhancing the guidance on professional skepticism, we believe more could be done in ISA 240 to emphasize risks related to auditor bias. The enhanced guidance on types of auditor biases included in ISA 220 (Revised) is useful and could be supplemented in ISA 240 with guidance specific to how such biases could negatively affect the effectiveness of the auditor's identification, assessment and response to fraud risks.

ISA 315 (Revised 2019)

The understanding of the entity and its environment and the entity's system of internal control forms the auditor's primary source of information for identification of risks of material misstatement, whether due to fraud or error. ISA 315 (Revised 2019) includes several enhancements that are directly relevant and beneficial to the auditor's identification of fraud risks. Although some conforming and consequential amendments were made to ISA 240 as a result of the revisions to ISA 315, we believe more can be done to further enhance ISA 240 to draw out how the fraud risk identification and assessment process is integrated with the enhanced risk assessment process for the financial statements as a whole. We have the following specific suggestions:

Emphasizing that information from the auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement may include information directly relevant to the identification of fraud risks

Explaining the importance of a robust understanding of the entity and its environment to the identification of risks of material misstatement due to fraud and expanding on how the understanding of the elements of the business model (as outlined in Appendix 1 of ISA 315 (Revised 2019)) can give rise to fraud risk factors

Providing guidance on the application of the fraud triangle (i.e., incentives/pressures, opportunities and rationalization) as a “lens” on the evidence obtained from risk assessment procedures to provide a framework for the auditor to objectively consider fraud risk factors, which would also support the auditor appropriately exercising professional skepticism

Clarifying that the auditor’s understanding of the entity’s risk assessment process and monitoring process includes how these processes address fraud risks, as well as any consequences of the evaluations of these components in the context of ISA 240

Clarifying that the auditor’s required understanding of controls that address fraud risks includes any fraud risk management programs and controls that operate above the transactional level (e.g., whistle-blower hotlines, internal audit departments)

Clarifying that the new standback requirement to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for identification and assessment of the risks of material misstatement also applies with respect to fraud risks

We also have suggestions above that have a relationship to ISA 315 (Revised 2019) for the specific topics of corporate culture and third-party fraud on which the IAASB is specifically seeking feedback.

ISA 500 Audit Evidence

We support the IAASB’s recently commenced standard-setting project on audit evidence and that the scope of the project includes whether fraud considerations are appropriately addressed in ISA 500. We believe a specific focus on enhancing the guidance related to authenticity of documents would be useful. With advances in technology, alterations to documents are difficult to detect in many circumstances. We note that the Exposure Draft of ISA (UK) 240 includes useful examples of conditions that indicate a document is not authentic or has been tampered with.

In addition to the above, we would also be supportive of clarifying the expected work effort related to evidence obtained from external sources. The requirement for the auditor to “consider” the relevance and reliability of information obtained from external information sources implies a relatively low work effort, which may not have a desired level of effectiveness as it relates to addressing the authenticity of audit evidence obtained from external sources.

We also encourage the IAASB to consider expanding on the role of external confirmations in addressing fraud risks. ISA 240 provides only brief acknowledgement through an example that external confirmations may be a response to fraud risk. Guidance in ISA 240 could be enhanced, or alternatively, ISA 505 could be enhanced to set stronger expectations for obtaining external confirmations in certain circumstances (e.g., existence of cash or other assets with higher assessed risks of material misstatement).

Although the use of technology is not included in the scope of the Discussion Paper, we encourage the IAASB to consider how technology can be used to obtain audit evidence directly from third parties (e.g., electronic confirmation services, open banking arrangements) and how tools, similar to those used by forensic specialists today, can assist the auditor in evaluating the authenticity of audit evidence obtained from the entity as well as from third parties (e.g., bank statements, contracts).

Use of forensic specialist on audits

Forensic specialists can provide increased insight into the fraud risks of an entity and can also assist with the development of procedures to respond to fraud risks. However, as highlighted in the Discussion Paper, we agree that the effectiveness of using forensic specialists must be considered in the context of the objectives of each financial statement audit and the nature and circumstances of the specific engagement. As the facts and circumstances can vary significantly from one audit to another, the use of forensic specialists would not in all instances result in an increase in audit quality. Further, there are capacity constraints, as well as cost implications, to consider related to the availability and use of forensic specialists.

We therefore do not believe that the use of forensic specialists should be required on all audits. We suggest including guidance in ISA 240 that forensic specialists may be involved in the auditor's identification, assessment and/or response to fraud risks. Consideration could be given to establishing a requirement similar to that included in ISA 540 (Revised), where the auditor is required to determine whether the engagement team requires specialized skills and knowledge to identify and respond to fraud risks; however, the scalability of such a requirement for less complex audits would need to be determined.

We also believe it is important to recognize in the guidance that a financial statement audit is broader in scope and not forensic in nature, and as a result not as effective as a separate forensic audit engagement given that forensic specialists are typically accustomed to a scope of procedures that is often narrowly focused on specific alerts or allegations.

Because of the expertise of forensic specialists to respond to specific instances of identified or suspected fraud, we support the consideration of a requirement for the auditor to determine whether a forensic specialist should be involved to assist in determining the implications of any such instance for the audit, which could include non-material frauds unless they are clearly inconsequential.

Engagement quality review procedures

Because an engagement quality review involves an objective evaluation of the significant judgments made by the engagement team, we believe that significant risks, including fraud risks, inherently fall within the scope of the review. We also believe that the recently released ISQM 2, includes provisions that will support the engagement quality reviewer in evaluating the engagement team's significant judgments in relation to fraud (e.g., the new requirement to perform the engagement quality review at appropriate points in time). Nevertheless, we would not be opposed to ISQM 2 including specific guidance on the expectation that the engagement quality review involves evaluating the judgments made in relation to fraud risks and any instances of identified or suspected fraud.

GTI

Exploration of how the profession can use advancements in technology to be more effective at detecting fraud may also be helpful in adapting the audit response to the underlying cause of the risk of material misstatement. This includes consideration of advancements such as:

Continuous auditing

Enhanced audit data analytics

Greater use of technology for analysis of classes of transactions, account balances and disclosures

Further, we are of the view that the way in which cyber-crimes can be perpetrated is very different and consideration could be given to developing separate guidance for auditors in these areas, having regard to requirements and guidance that currently exists in other ISAs, for example ISA 315 (Revised 2019). This

guidance could be through, for example, a 'Staff Audit Practice Alert', which can be issued on a timelier basis and as such will be more responsive to market developments.

We further recommend outreach in these areas to promote further discussion.

Professional skepticism

With respect to the application of professional skepticism, both in its application in general and more specifically to fraud and going concern matters, using terms such as "enhanced professional skepticism" are not very meaningful. "Enhanced" is subject to interpretation and will not necessarily result in consistent application or even an improvement in overall quality. Moreover, it suggests that the application of just 'regular' professional skepticism is somehow deficient. The application of professional skepticism and professional judgment is pervasive across all aspects of the audit and will be an important aspect of the IAASB's Audit Evidence Project. In this respect, we believe the IAASB should consider developing meaningful guidance using various scenarios of what professional skepticism is and how it is to be applied. Just adding it into more standards is not helpful or meaningful.

HLB International (HLB)

Question 2 (a)

We do not believe the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements. We believe the existing standards are sufficient and appropriate and enhanced or more requirements with regard to fraud in an audit of financial statements will ultimately not serve the public interest. We agree that sometimes auditors do not fully understand or appreciate the requirements and more application guidance is needed, not enhanced or additional requirements. Failures occur because the auditor did not do what should have been done. This does not mean the existing standard is insufficient and will therefore not be fixed by a new standard.

KPMG

Changes to ISAs

We are supportive of exploring clarifications to the auditing standards, in particular, ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, and ISA 570 (Revised), Going Concern. However, we believe that at a conceptual level the ISAs, and the audit itself, remain fit for purpose.

We note that many of the potential solutions set out in the DP would give greater emphasis to requirements that are already embedded in the ISAs, such as involvement of specialists (which would include forensic specialists and deployment of technology solutions, assisted by such specialists) when the engagement team considers appropriate; guidance regarding how to appropriately exercise professional scepticism, and challenging management appropriately regarding their assumptions and judgements.

Focus on non-material fraud

The ISAs establish a number of requirements in this area, including requiring the auditor to evaluate whether identified misstatements are indicative of fraud and assess the impact on other aspects of the audit, particularly management representations. The Board questions whether these responsibilities should be expanded or enhanced, noting that non-material frauds are becoming more prevalent, and may be indicative of broader concerns regarding an entity, to require a wider focus by the auditor on fraud.

We do not believe the auditor's responsibilities need to be expanded, but we suggest that the IAASB consider enhancing the current material in the ISAs regarding the auditor's responsibilities when non-material fraud is identified (whether by the entity or the auditor) in terms of evaluating the implications on the audit as a whole. For example, greater emphasis could be given to understanding the actions taken by management in response to the identification of fraud, and evaluating the implications this understanding may have on risk assessment; the auditor's understanding of the entity's internal control; the reliability of audit evidence, and how we exercise professional scepticism.

We also suggest that the IAASB consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors, with examples, linked to ISA 320.10, that this is factored in when determining materiality for the financial statements as a whole, and for particular classes of transactions, account balances or disclosures, i.e. there is no 'separate' materiality threshold in respect of fraud.

Instead, since professional scepticism is fundamentally a mindset/ behaviour and therefore it cannot be improved by simply requiring auditors to be 'more sceptical', we recommend exploration of additional enhancements to the ISAs that emphasise how to exercise professional scepticism in respect of fraud during the audit, including when this is most critical, as well as how to do this. For example, ISA 240 could introduce a 'stand back' requirement to consider all audit evidence obtained, similar to that included in ISA 315 (Revised), as well as guidance regarding auditor biases and how to address disconfirming audit evidence. This could be linked to the Examples of Circumstances that Indicate the Possibility of Fraud, set out in Appendix 3 of ISA 240. This requirement could emphasise the importance of discussion between members of the engagement team, similar to the Risk Assessment and Planning Discussion that is required by ISA 315 (Revised), as such matters may only be identified on a collective basis across the engagement team as a whole. We also suggest the inclusion of improved linkage to proposed ISA 600 (Revised), addressing frauds that arise at components and highlighting the importance of involvement of component auditors, given their greater knowledge of the component environment, including local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/ practices. This may be especially important when the component is in a jurisdiction that is considered to be "higher risk", because, for example, it involves a rapidly changing regulatory and business landscape, and is subject to heightened fraud risks.

Instead, we recommend the potential inclusion of enhancements to application material within ISA 240 in respect of professional scepticism, to highlight areas such as collusion opportunities/ risk factors (which may be more prevalent in certain industries or jurisdictions). This would be similar to enhancements made/proposed to other standards in recent years to raise awareness of the importance of professional scepticism and when, in particular, this may be necessary in performing an audit engagement.

Mazars (MAZ)

Developing resources of industry metrics or business trends that are available to all firms could aid firms in planning and risk assessment in all areas of the engagement, including fraud considerations and the going concern assumption.

Making clarifications on the existing standard could be helpful:

Further guidance regarding the risk of management override and how to address it though the implementation of unpredictability and journal entries testing and other tests would be beneficial;

More guidance for auditors on how address fraud and going concern in a transnational group under ISA 600 would help all practitioners

Mazars USA (MAZUSA)

We acknowledge that there could be value in additional implementation guidance or tools related to the auditor's challenge of risks that may be specific to certain industries.

MHA Macintyre Hudson (MHA)

A significant aspect of auditor behaviour underpinning the work on fraud and going concern is the application of professional scepticism. In particular challenge of management, including challenging assumptions in estimates may indicate management bias or the basis of the going concern assessment. We believe that the IAASB, and other stakeholders, can do much more to assist auditors in effectively challenging management through better standards, application material, training and guidance. A key part of such materials would be clarity for auditors on the different types of bias, how they manifest themselves during an audit and how they can be mitigated when undertaking audits.

As part of the IAASB's deliberations on technology, there is merit in exploring the auditor's role in third party fraud such as cybercrimes, where the IAASB as a minimum could provide additional guidance for auditors. Cyber-attacks and any associated fraud may also be linked to going concern, with auditors challenging management where operational/reputational loss has been incurred but not included in managements forecast or disclosures.

We do not believe that introducing another term, to replace professional scepticism and alongside a "questioning mindset", will be either helpful or would necessarily change behaviour significantly. A key auditor behaviour which should underpin scepticism is effective challenge of management. A greater emphasis in standards, application material, and other guidance on how auditors can challenge management (e.g. on assumptions, estimates, going concern assessment) and, equally importantly, demonstrate that challenge will be of greater value than introducing another term which is not easy to define or demonstrate. Further guidance on situations where application of a more "suspicious" approach might be appropriate and helpful (e.g. where there are indications of management bias).

MNP LLP (MNP)

However, in instances where there is a diversity in the understanding and application of the current requirements, the IAASB should provide additional practical guidance and illustrative examples written to be accessible and understandable to both auditors and investors.

Moore (MGN)

We are uncomfortable with the phrase 'suspicious mindset' although we accept that it is becoming a popular concept. We feel that the word 'suspicious' carries unfortunate nuances and runs counter to professional scepticism which should not be rooted in distrust but rather in absolute neutrality. If a new word is considered necessary, then we prefer 'questioning'. We do, however, agree as indicated above that scepticism as a concept could and should be better understood (by all parties) deployed and documented (by auditors). However, we believe that the best way to achieve this is through enhanced guidance and examples rather than enhanced/expanded requirements.

We believe that the existing requirements relating to fraud are reasonable and appropriate in and of themselves, however enhanced application material or other guidance could usefully be developed by IAASB, in particular, addressing:

Circumstances where fraud risk indicators are present – providing auditors with more useful guidance on how to respond. Existing guidance could be rewritten/expanded to address modern methods of auditing including data analytics as possibilities where triggered;

Guidance on interactions with the IESBA Code around client acceptance where fraud risk indicators may be present;

Fraudulent manipulation of the financial statements;

Suspected fraud in entities with low complexity;

Corporate culture;

Qualitative materiality in relation to fraud;

The relationship between fraud and error.

In particular, we believe that additional guidance on the fraud triangle as it relates to smaller entities would be particularly useful since incentives and justification may have qualitative differences in those entities when compared to larger entities.

Additional/revised requirements might usefully be developed relating to engagement with audit committees in particular, and general promptness of response.

PricewaterhouseCoopers (PWC)

Fraud risk factors and engagement team discussion

Consistent with the goals of ISA 315 (Revised 2019), drawing attention to the auditor's consideration of management's tone at the top and risk assessment process, together with the auditor's well-reasoned risk assessment, may be helpful to reinforce consistent auditor behaviour. In addition to what we describe in our response to question 1 with respect to fraud schemes, ISA 240 (Revised) could be updated to better reflect fraud risk factors/considerations relevant to the modern business environment, including how technology may be used to perpetrate fraud. The IAASB may find that leveraging experience of fraud specialists to inform updates to the ISAs or other implementation guidance could be useful. In order to develop changes that will remain appropriate over a longer period of time, there will likely be a need to balance any changes contemplated to the body of the standard with supplementary guidance. Supplementary guidance can be updated more frequently to reflect emerging fraud schemes and considerations related to evolving technology.

The perceived responsibilities of the auditor regarding non-material fraud, what additional procedures, if any, may be appropriate, and whether additional audit procedures should be required when a non-material fraud is identified

As ISA 240 already explains, there are inherent limitations on the ability of the auditor to design an audit to detect material misstatements resulting from fraud. Seeking to detect non-material misstatements arising from fraudulent activity is inconsistent with the scope and objectives of the audit. Time and cost barriers make this impracticable. No proportionate audit requirements can eliminate the risk of fraud. Implementing a requirement to identify and respond to risks of non-material fraud (i.e., fraud that does not result in a

material misstatement of the financial statements) would be costly and likely increase the expectation gap, as the risks of fraud occurring and not being detected cannot be eliminated. Accordingly, we are not supportive of expanding the scope of the auditor's responsibilities beyond the identification, assessment and response to risks of material misstatement of the financial statements due to fraud.

The inquiries required by ISA 240 of management, internal audit, and those charged with governance could identify non-material fraud, and greater emphasis could be given in application material on how the results of those inquiries may affect the auditor's risk assessment. For example, when potential non-material fraud has been identified through management's processes and controls, understanding how management has investigated and evaluated the matter, including any discussion with those charged with governance, would assist the engagement team in their re-assessment of risk and other evaluations made as part of the audit. This includes understanding the view of management and those charged with governance as to whether the matter is a stand-alone event or indicative of a more structural fraud scheme.

The focus on internal control relevant to financial reporting we describe in the earlier section of this response can also inform the auditor's risk assessment, and help the auditor to form a view as to whether non-material fraud may be indicative of a more significant or pervasive risk. From a perspective of avoiding potential contributors to the expectation gap, we also suggest that the term "non-material" fraud could itself be subject to different interpretations. In that regard, clearly explaining that this means fraud that quantitatively or qualitatively does not cause a material misstatement of the financial statements, would be helpful.

Unpredictability

Consideration could be given to reinforcing unpredictability in the design of audit procedures, with additional examples given to illustrate. In particular, guidance could be included with the objective of:

better connecting the concept of incorporating an "element of unpredictability" with an enhanced consideration of fraud schemes and specific fraud risk factors identified by the auditor; and

emphasising how changes in an entity's circumstances could give rise to opportunities for management override of control or other fraud, and the importance of taking a "fresh look" at the audit plan.

We do not support mandating involvement of forensic specialists, as such a requirement risks making specialist involvement perfunctory and less effective over time. It may not have a discernible impact on audit quality on engagements where there are no identified significant fraud risk indicators, bringing the cost/benefit into doubt.

Whether, and the extent to which, it is considered appropriate to involve specialists in identifying, assessing, and helping design an appropriate audit response to, fraud risks is a matter of professional judgement made in the context of the engagement circumstances. If involvement is deemed appropriate, this can range from limited advice in response to specific questions, to more significant and direct involvement in risk assessment and development of the response to assessed risks. When deciding to involve forensic specialists, they can be engaged in different ways and their role will vary depending on whether they are consulting, coaching, or actively assisting in an execution role.

Application material to ISA 240 could describe this spectrum of involvement and provide illustrative examples of relevant factors that an engagement team could consider in determining whether involvement of specialists may be appropriate in the circumstances. For example, if one or more heightened fraud risk factors or indicators of fraud are identified, the use of a specialist can enhance the engagement team's

understanding of how the risk factors or other indicators are likely to manifest (i.e., fraud schemes) and/or help in developing an effective audit response to these circumstances.

Time, cost and scalability are also important considerations, under the overall context of judging whether involvement of specialists will enhance quality on the audit engagement.

It is important that the involvement of forensic specialists is clearly understood in the context of the scope of an audit. The expectation gap may widen if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work. There is a clear distinction between use of specialists in an audit support capacity and the nature, timing and extent of work that a specialist performs in a forensic investigation. In the latter capacity, forensic specialists carry out an investigation of allegations or suspected fraud to determine the facts and, as appropriate, to support the entity in remedial and recovery actions. Whatever the precise objectives, these go beyond assisting the audit team within the terms of the financial statement audit, and beyond the scope of work expected in an audit.

Whether additional quality management review procedures focused on the engagement team's responsibilities relating to fraud should be considered for engagements for which an engagement quality review is required

We agree with the assertion in the DP that judgements relating to consideration of fraud risk factors and related assessments of the risks of material misstatement would already fall within the scope of significant judgements addressed by the engagement quality reviewer.

ISQM 2 has recently been approved and was drafted on a principles-basis. With respect to significant matters and significant judgements, the Board concluded that including lists of matters to be considered by the engagement quality reviewer was not appropriate, as it would always be subject to perceptions of being incomplete. The ISQM therefore cross-refers to ISA 220 (Revised) where examples of significant judgements are given (paragraph A93). Those examples make no reference to fraud risk indicators or assessed fraud risks. To the extent that emphasis is warranted on the importance of the engagement quality reviewer giving attention to these judgements, consideration could be given to adding further application material to ISA 220 (Revised).

Whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties and also the role of the auditor in relation to third-party fraud that negatively impacts the entity but does not result in material misstatement of the financial statements e.g., cyber attacks

As the DP describes, the ISAs already include reference to third parties with respect to considering risks of material misstatement due to fraud. There does not appear to be a gap in the underlying requirements. It is therefore unclear exactly what stakeholders are seeking when stating that additional emphasis should be placed on procedures related to identifying third-party fraud. What seems most relevant is facilitating an appropriate risk assessment.

In that regard, we note that appendices 1 and 3 of ISA 240 do not explicitly address fraud risk factors relating to third-parties or circumstances that may be indicative of fraud, which could be helpful to the auditor in thinking about fraud risk. Consistent with our earlier responses, we believe the standard (and/or supplementary non-authoritative guidance) could be updated to reflect additional fraud risk factors and fraud indicators/schemes and, in doing so, could include sections more specifically addressing risks related to third parties.

Whether or not cybercrime or similar attacks upon an entity are considered "fraud", they may nevertheless be relevant to the audit if they have a material impact to the entity's financial statements. To the extent that

such matters pose material risks to the business and its ability to operate, this can have a bearing on several aspects of the audit, including assessing the entity's ability to continue as a going concern and any related material uncertainties.

While we do not believe ISA 240 is fundamentally broken, there are some targeted changes that could be made to the application material to bring the standard more up-to-date and reflect the changing business environment. Outreach may also indicate practical implementation challenges, either through inconsistent understanding of the intent of requirements or inconsistent execution, including a perceived lack of the appropriate application of professional scepticism.

RSM International Limited (RSM)

There is a greater sensitivity to fraud than to factual errors or to estimation uncertainty, since fraud, even of relatively small monetary value, may also raise serious concerns about management's integrity, or about the effectiveness of internal control. As such, there may be some value in issuing further guidance in relation to actions necessary where nonmaterial fraud is identified through routine testing.

The issue that needs to be addressed is that the requirement to exercise professional scepticism is not being consistently applied on all audits. We believe the enhancements to ISA 220, Quality Control for an Audit of Financial Statements, as a result of the issue of the International Quality Management Standards will improve the consistency of auditors' understanding of how to apply the concept of professional scepticism. In addition, we suggest:

Increased guidance in ISAs on exercising professional scepticism by challenging management and ensuring that auditors fully investigate issues that arise on the audit.

More emphasis in ISAs in general on seeking disconfirming or contradictory evidence so that auditors do not just focus on confirming evidence. It is important that, when auditing the data and assumptions used by management in areas such as valuations, impairments and going concern, auditors stress test the models used to breaking point. This would entail varying management's assumptions to see where the model results in a material misstatement. If the data and assumptions used to "break the model" are reasonably possible outcomes, then the auditor needs to challenge management on whether its own data and assumptions are appropriate.

5. Public Sector Organizations

Australasian Council of Auditors General (ACAG)

Effective professional scepticism is driven by suitable involvement, coaching, and direction of staff, especially in the risk identification and response stages of the audit. As stated above we can do more to enhance professional scepticism in the execution of our audits. Additional guidance in relation to applying professional scepticism in relation to fraud and going concern would be useful and appropriate.

Many auditors have a natural "confirmation bias" (which also brings a perception of a less challenging audit experience) which could be addressed through guidance and training.

No, the current wording (i.e. professional scepticism) is more appropriate. We agree with the suggestion of amending the standards to describe professional scepticism on a continuum, with guidance to help auditors identify red flags (e.g. conflicting audit evidence or conditions that may indicate possible fraud) and therefore increase the level of scepticism in these instances.

The basis of a financial audit is materiality, notwithstanding this, if a non-material fraud is identified, current practice for auditors is to identify how the fraud occurred. This would assist in determining the risk of any non-discovered material fraud in relation to the financial statements. This may not be clearly understood as a current requirement, therefore, suggest the IAASB expand on this requirement with further guidance to help auditors apply the requirement.

Any activity needs to not confuse users or practitioners about the auditor's responsibility with respect to fraud. The auditor's responsibilities for reporting fraud are already considered clear in the auditing standards. From a practical perspective, it would be difficult to apply an audit methodology that require two levels of materiality – one for the financial statements and one for fraud.

In the public sector context, there may be specific requirements for the referral of fraud for further investigation. Auditor-Generals may decide to consider the public interest perspective (qualitative, nature) and resource other audit activities additional to the scope of the financial audit.

US Government Accountability Office (GAO)

fraudulent financial reporting could be driving the unexpected reported financial results. We also believe that auditors may need tools to help them ensure that unusual and unexpected relationships are identified through high-level analytical procedures and factored into their risk assessment.

The IAASB could consider adding guidance that the engagement team's discussion of the susceptibility of the financial statements to material misstatement due to fraud include a consideration of external factors. Such consideration could include the entity's current industry conditions, a comparison of its financial condition with other entities in the industry, and whether any inconsistencies or other conflicting information the audit team has encountered may indicate a risk of fraud.

The IAASB could also consider whether audits would benefit from enhanced guidance related to the control environment component related to fraud. Such guidance for evaluating the control environment as it relates to fraud could assist auditors in understanding the audited entity's corporate culture and whether the culture would permit fraud. This enhanced guidance coupled with tools to help auditors sufficiently identify risks could help address the challenges related to auditors' identifying material misstatements due to fraud.

In relation to fraud, we generally believe that the current financial statement audit requirements are sufficient if auditors effectively implement them. However, we also believe that implementation could be improved if the IAASB provides additional guidance or tools to assist auditors in identifying risks of material misstatement caused by fraud or error.

the paper that it is helpful to think of professional skepticism on a continuum related to the risk of material misstatement and other factors. We suggest that the IAASB consider adding guidance that a neutral mindset may be appropriate in certain low-risk circumstances but presumptive or complete doubt may be warranted in other higher-risk circumstances. For this perspective to be useful, auditors need to sufficiently and accurately identify and assess risk. This further highlights the importance of providing auditors with the tools for more sufficiently identifying risks, as discussed in our response to question 2(a).

We do not believe that the IAASB should enhance auditor considerations around fraud to include a "suspicious mindset." We find the description of professional skepticism in the paper, *Enhancing Auditor Professional Skepticism*, to be compelling.³ We agree with

We generally believe that the current requirements with regard to fraud are sufficient if auditors effectively implement them. However, we also believe that implementation could be improved if the IAASB provided

additional guidance or tools to assist auditors in identifying risks of material misstatement caused by fraud or error. This could include further guidance on considering external factors, high-level analytical procedures, and procedures related to evaluating the control environment component of internal control.

We believe that auditors could benefit from tools to assist them with sufficiently identifying risks of material misstatement. If auditors do not sufficiently identify risks of material misstatement, they will not design and implement responses to effectively address them and perform audit procedures that may identify fraud.

For example, to identify risks of material misstatement, auditors may need to focus more on the environment in which an entity operates, including industry and other regulatory factors. The current conditions of the audited entity's industry may help auditors more sufficiently identify such risks. If other entities in the same industry are facing financial challenges and the audited entity is showing strong financial returns, auditors should consider this when identifying risks. This may include considering why the entity is demonstrating strong financial returns and whether errors in financial reporting or

6. Member Bodies and Other Professional Organizations

American Institute of Certified Public Accountants (AICPA)

We note that in recently issued ISAs there has been a heightened focus on professional skepticism in the application material. For example, the application material in ISA 540 (Revised) describes ways in which the auditor can exercise professional skepticism and ways in which professional skepticism can be documented. We support the IAASB's approach to provide further guidance relating to exercising professional skepticism in the application material for the standards related to fraud and going concern.

We believe it would be helpful for the IAASB to provide examples, through nonauthoritative educational materials, that describe ways in which the auditor can exercise and demonstrate heightened professional skepticism in specific circumstances.

Stakeholder Perspective Question (page 19 of the discussion paper): The IAASB is interested in perspectives about the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e., a broader focus on fraud) and what additional procedures, if any, may be appropriate. The IAASB is also interested in perspectives about whether additional audit procedures should be required when a non-material fraud is identified, and if so, what types of procedures.

Response: If the auditor identifies a misstatement, ISA 240 requires the auditor to evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor is required to evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management's representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. Therefore, ISA 240 and ISA 260 (Revised), Communication With Those Charged With Governance, already consider non-material fraud. We recommend the IAASB consider the interplay between ISA 240 and ISA 330 as it relates to misstatements of the financial statements relating to fraud. We also note that ISA 240 appears to focus mostly on fraudulent financial reporting, and we encourage the IAASB to consider whether there is a need for further guidance about misappropriation of assets. Such misappropriations may become material when aggregated over several periods.

We recognize that corporate culture may be preliminarily considered, to some degree, as part of the client acceptance and continuance process. Accordingly, we recommend the IAASB reflect on whether additional guidance (for example, application material, staff guidance or case studies) should be developed about inquiries being performed as part of client acceptance and continuance decisions (in addition to during risk

assessment procedures) relating to the tone at the top, including corporate culture and how the results of those inquiries later inform the auditor's risk assessment.

Response: International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews, requires the engagement quality control reviewer to discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement. The engagement quality control reviewer is also required to review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: (i) The basis for making those significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team; (ii) Whether the engagement documentation supports the conclusions reached; and (iii) Whether the conclusions reached are appropriate.

Paragraph 28 of ISA 240 requires the auditor to treat assessed risks of material misstatement due to fraud as significant risks. Accordingly, we recommend the IAASB consider enhancing the application material in ISQM 2 to provide examples of how the engagement quality control reviewer may consider the engagement team's response to risks of material misstatement due to fraud.

In November 2020, the ASB requested feedback, through a public survey, to the questions in the IAASB Discussion Paper from a U.S. GAAS perspective. Based on the feedback from our outreach initiative, we received examples of factors the engagement quality control reviewer may want to consider, including considering the engagement team's:

- identification of fraud risk factors and related response,
- brainstorming,
- other procedures performed,
- exercise of professional skepticism, and
- documentation.

As noted in the Discussion Paper, the definition of fraud in the auditing standards includes fraud by third parties. We believe that the concept of third-party fraud is not well understood. We recommend the IAASB consider ways to better educate auditors about what is meant by a "third-party" fraud, how such fraud differs from a fraud committed by employees or by those charged with governance, and how such fraud may affect the financial statements.

Stakeholder Perspective Question (page 18 of the Discussion Paper): The IAASB is interested in perspectives about requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

Response: The ISAs currently contain the following related to the competence and capabilities of the engagement team:

ISA 220 (Revised), Quality Management for an Audit of Financial Statements states that "the engagement partner shall determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time to perform the audit engagement."

ISA 240 requires the auditor to assign and supervise personnel taking into account the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement.

Paragraph A35 of ISA 240 provides an example for assigning additional individuals with specialized skill and knowledge, such as forensic and IT experts.

We recommend the IAASB consider expanding the application material in the ISAs or provide nonauthoritative guidance to help auditors identify situations, based on their professional judgment and risk assessment, in which the use of relevant specialists may be needed. For example, this guidance could provide examples of fraud risk factors that may cause the auditor to consider the use of a relevant specialist or could provide examples of circumstances that may cause the auditor to consider using a relevant specialist.

We also encourage the IAASB to explore ways in which engagement teams may be encouraged to better train engagement team members about how frauds occur and what frauds look like, as part of the engagement partner's fulfilling the responsibilities described above. We also recommend the IAASB consider providing more guidance for auditors relating to how to best conduct fraud inquiries and fraud brainstorming, and how auditors may use data analytics or other technologies to enhance their audit procedures around fraud.

Center for Audit Quality (CAQ)

In addition to seeking feedback from regulators and accounting standard setters, we encourage the Board to carefully consider whether making changes to the ISAs is the most appropriate response to the challenges outlined in the Discussion Paper with respect to fraud and going concern. We believe the Board has a menu of options when it comes to affecting change in these areas. Implementation guidance, non-authoritative support materials, and staff audit practice alerts supporting sufficiently principles-based standards likely can achieve many of the objectives laid out in the Discussion Paper.

In considering recent corporate failures, we recommend that the IAASB seek to understand through discussion with regulators and others whether these issues were due in part to an auditor failing to perform under the auditing standards, or a perception thereof, or whether the auditor's responsibilities under the current standards are viewed as being unclear. Fraud may be perpetrated in different ways and fraud schemes and the methods of perpetrating them continue to evolve with technological advances. The Board could consider formally evaluating the auditing standards and related guidance in light of these technological developments. Such evaluation could provide insight as to whether supplemental guidance would be helpful to facilitate auditors applying the current auditing standards through a modern lens that considers the latest technologies used to perpetrate fraud.

The IAASB also could consider whether the issuance of periodic staff audit practice alerts that highlight common fraud schemes and other potential fraud risk factors at entities could better illustrate how professional skepticism is applied in considering risks of material misstatement due to fraud and developing an appropriate response to those risks.

We believe the recent improvements to ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, could assist auditors in performing a more robust consideration of management's tone at the top, risk assessment process, and inherent risk factors, such as susceptibility to misstatement due to management bias and other fraud risk factors. The revised standard provides additional application guidance that more clearly describes the objective of the requirements (i.e., 'what' needs to be done) and

considers the auditor's use of technology (automated tools and techniques) which may be used to enhance risk assessment. Similarly, structured application guidance related to potential fraud risk identification, both internal to the entity and from external sources (including but not limited to cybersecurity-related risks at third party service organizations) may achieve the objectives of narrowing both the Performance and Evolution Gaps. For example, an increased focus on understanding the processes and internal controls management and those charged with governance have established to address allegations of fraud raised by employees or other parties (e.g., whistleblower or ethics hotlines) can inform the auditor's risk assessment. This also may help the auditor to form a view as to whether non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) may be indicative of a bigger issue, without necessarily expanding the auditor's responsibilities to design and perform specific procedures with regard to misstatements that are not material. In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

CFO Forum

Auditors further need to ensure that management has put in place robust controls pertaining to identifying and preventing fraud and auditors should spend time understanding whether the implemented controls achieve the fraud identification/detection objectives. As mentioned in the DP, corporate culture and tone at the top impacts the occurrence of financial statement fraud. Corporate culture reflects how much emphasis management and those charged with governance place on fraud prevention and fraud deterrence which is listed as a fraud risk factor in the auditing standards. We believe that the auditing standards should be expanded to provide more guidance on how to evaluate and address this risk.

Due to the nature and complexity of fraud, there are members that believe that it will be beneficial for audit teams to use forensic specialists. The IAASB could accordingly consider requiring audit firms to include forensic audit training as part of the audit firm's International Standard on Quality Control (ISQC) process and procedures for engagement performance, as well as provide guidance on the application of technology in performing fraud-related procedures (for example run data analytics to identify exceptions and anomalies). However, these members do not believe that the cost of including such forensic specialists should be excessive or borne solely by the audited entity/group, but rather that the audit firm/s themselves should share in these costs as the audit firms are aligning to audit on a risk identification basis.

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Audit procedures responsive to risks related to management override of controls i.e. journal entry testing

We note that in the case of journal entry testing there seem to be some inconsistencies in practice, particularly in LCE audits, with practitioners often questioning the value added when for example, many, if not all, of those entries already formed part of their substantive testing. We therefore suggest providing guidance regarding the 'why' of performing certain audit procedures is better articulated, allowing practitioners to recognise the value added which in its turn will lead to better performance in this area as noted in our response to the IAASB's Discussion Paper on LCEs.

Confederation of Indian Industry (CII)

A "suspicious mindset" may be detrimental to the auditor/entity relationship and hinder the free exchange of information necessary to perform an audit. Also, it is important to note that professional scepticism is already well-defined and foundational in the auditing standards and, while it does not mean to be

automatically suspicious, it does mean a questioning and unassuming mind and a critical assessment of audit evidence, including contradictory evidence.

Rather than providing a new term in the auditing standards, the IAASB could work with the International Accounting Education Standards Board to develop implementation guidance and/or educational materials to improve the consistency of application of professional scepticism and aid in reducing risks associated with the “performance gap,” especially by highlighting areas which likely require increased professional scepticism (for example, via short videos that demonstrate how heightened professional scepticism led to the discovery of fraud).

The current auditing standards state that the auditor’s responsibility is to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements due to fraud. Further, the auditor is required to apply professional judgment in evaluating an entity’s facts and circumstances and to design appropriate audit procedures to address the risk of fraud. Reasonable assurance seeks persuasive evidence and not conclusive. To manage stakeholders’ expectations, and to address the extent of persuasive evidence required by the auditor in carrying out the audit, additional guidance may be provided by the IAASB. Such guidance may entail forensic type or more penetrative procedures in selected areas of the audit under certain circumstances.

The IAASB may publish implementation guidance for existing ISA requirements in areas like:

Implementation guidance for management override of control and how it is related to fraud and audit procedures relating to journal entry testing and management estimates (test for bias).

Implementation guidance for considering Key Performance Indicators (‘KPIs’) as part of fraud risk assessment and how these may link with internal frauds within an organization.

How auditors should use analytics to identify outliers which may be further investigated for potential fraud.

The IAASB may also consider addressing the circumstances in which the auditors may be required to address this in Key Audit Matters as required by ISA 701.

CPA Australia (CPAA)

There are many types of third party fraud which cannot reasonably be expected to be detected by the auditor. Therefore, it is important that the types of fraud that the auditor is expected to consider are clearly defined. Not all frauds impact the financial statements and third-party fraud such as a cybercrime may not have an immediate or measurable financial impact, however, increased expertise in technology is necessary to understand the implications of such crimes. If such fraud is detected, the auditor will need to engage the relevant expertise to assess the impacts. Guidance for auditors in recognising when they require that expertise may be beneficial, although increasingly, audit teams are likely to need that IT expertise themselves.

We do not consider that auditors procedures should be extended to detecting non-material fraud per se, due to the likelihood that it would not pass a cost-benefit assessment. Not only are non-material frauds not easily identifiable without a significant increase in work effort and reduction in materiality thresholds, but the very nature of fraud, which can include concealment, collusion and deception, can mean it evades discovery. However, non-material fraud identified is still of interest and relevance to the auditor as it may impact their risk assessment if it is indicative of undetected fraud or systematic control weaknesses which may enable further fraud to be perpetuated and escalated in the future. Fraud which is quantitatively non-material may have qualitative impacts, such as reputational damage, loss of confidence in the entity or an undermining of

corporate culture, which need to be considered. Further application material could be included in ISA 240 regarding these considerations.

Institute of Certified Public Accountants of Uganda (ICPAU)

ICPAU believes that the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements especially in regard to the audit of public interest entities. The enhancements should be made especially in regards to the audit of risky areas such as revenue, expenditure and assets. The auditors should always endeavor to critically audit the clients' financial reporting policies and controls when investigating any material misstatements due to fraud. The auditors may consider engaging a forensic specialist in engagement team discussion and/or engage the specialist to perform additional procedures on areas that may lead to material misstatements.

Institute of Chartered Accountants in England and Wales (ICAEW)

Those we consulted were concerned by IAASB's apparent scope-outs of technology, communications with those charged with governance, the rebuttable presumption regarding the risk of fraud in revenue recognition, risks relating to management override and journals testing. We understand that it is not the intention to scope these out of the project, just the DP. These are contentious and difficult issues, and we encourage IAASB to be clearer about how it intends to deal with them and set out a clear timetable for dealing with them in the very near future. Dealing with fraud or going concern on a piecemeal basis is a recipe for failure.

There is more to be done. Among other things, the larger firms of auditors we consulted suggested that some are:

- mandating data analytics for fraud testing using additional internal and external data and information relating to short selling, for example;

- using electronic confirmations wherever possible;

- developing fraud risk assessment frameworks;

- mandating annual fraud training, incorporating techniques borrowed from the behavioural sciences relating to bias;

- requiring the use of forensic specialists on a targeted-risk basis

Some we consulted suggest that IAASB should consider how ISA 240 might be rebalanced: it is currently tilted towards the identification of fraud, rather than how to deal with the risk assessed. The paragraphs dealing with the auditors' response are either very high level (paragraphs 28-30) or highly procedural (paragraphs 31-33). In practice, many frauds come to light 'by accident' - overheard conversations in a bad atmosphere, staff telling auditors about their suspicions, and things not looking right - people not appearing to do what they are supposed to do or doing things they should not, or the information presented for audit not making sense in some way.

The limited references to such oblique indicators in application material could be enhanced, but it is more important for IAASB to consider how the requirements can be enhanced to enable auditors to more confidently and robustly address these issues. For example, there could be clearer acknowledgement of the need for reconsideration of the quality of audit evidence provided by management generally where there is evidence of apparent recklessness, carelessness or negligence on their part in any area.

Some we consulted also observe that it would be helpful to revisit ISA 240 through the lens of financial reporting fraud - and to include more on how auditors might respond to suspicions of fraud relating to tax, options and off-balance sheet financing.

Management override: neither the IAASB nor the FRC have asked specific questions in this area but we believe it worthy of consideration in relation to LCE audits. With regard to management override, paragraph 31 of ISA 240 states that:

...Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

In many smaller audits this is simply not the case. Where controls are operated on an informal basis through the day-to-day involvement of management in all aspects of the business, the idea that management overrides controls makes little sense. Management is the control. Where that is the case, erratic application represents a weak control environment and/or control ineffectiveness in terms of design and implementation - not management override. Auditors of SMEs are thus required to shoehorn the presumptive significant risk of fraud due to management override applicable in larger entities into the audit of entities in which the concept makes little sense. Application material should acknowledge more clearly than it does now that the risks related to management override are likely to be relevant in larger and more complex entities where controls are formalised.

Embedding these procedures in the core audit practice goes beyond what is currently required by ISA 240. IAASB highlights a number of these issues in its DP and we believe they are worthy of further consideration.

Qualitative fraud: we note in our main points above how seemingly innocuous changes to accounting policies or methods can lead to error and then fraud. Some discussion in ISA 240 of how this can happen may serve to strengthen the auditors' position when seeking to challenge management. The UK's FRC has proposed changes to the UK standard emphasising the need for auditors to consider qualitatively material fraud that is not quantitatively material. In our response, we discuss the need to balance legitimate calls for auditors to address, for example, non-material but nevertheless egregious abuses of management expenses, regardless of fraud and/or compliance with regulation or company policy, with the need to avoid auditors having to check every expense claim for every director and follow up every error. Such issues are hard to address but some discussion of them in application material may again help strengthen the auditors' position when challenging management. It may be helpful to consider requiring auditors to reconsider evidence already obtained when evidence of non-material fraud, or more generalised recklessness or negligence come to light.

Institute of Singapore Chartered Accountants (ISCA)

Choice of audit strategy

The alignment of choice of audit strategy to audit quality is another important component towards achieving high audit quality.

The ISAs generally provide flexibility in the choice of audit strategy. For instance, paragraph A4 of ISA 330 The Auditor's Responses to Assessed Risks allows the auditor to determine that only substantive procedures are performed (fully substantive strategy) if the auditor finds testing of controls to be inefficient and therefore does not intend to rely on the operating effectiveness of controls. We note that the above allows the auditor to adopt an audit strategy based on efficiency, which may not always equate with audit quality. While we understand that the intention behind the flexibility may be to allow for scalability and

application of the auditor's judgment, we notice that it may potentially lead to audit teams determining audit strategy based on factors such as resources, fees or time pressure, instead of audit quality.

Audit quality should be a key determination factor when the auditor decides on the audit strategy. A fully substantive strategy would not be able to highlight any lapses in key internal controls over financial reporting. Where there are such lapses, the risk of fraud in the financial statements would increase.

With efficiency in mind, audit teams might be inclined to adopt a fully substantive strategy. However, there may be situations where substantive procedures may not by themselves provide sufficient appropriate audit evidence, such as when checking the completeness of revenue.

In this regard, tests of controls may be more effective as the auditor might be able to identify lapses in key internal controls over financial reporting which might have led to fictitious or fraudulent transactions.

Accordingly, we recommend that IAASB relook into paragraph A4 of ISA 330 which allows for efficiency to be the determining factor in the auditor's choice of strategy. IAASB should require audit quality to be a key determinant when the auditor decides on the audit strategy to be employed.

Contradictory audit evidence

Paragraph A1 of ISA 500 Audit Evidence highlights that audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. We believe that there could be further guidance on how auditors should deal with contradictory audit evidence and whether they may be expected to actively seek such contradictory audit evidence.

Given the plethora of information available in the public domain (which might be reliable or unreliable), it is becoming increasingly challenging for the auditor to decide whether to only deal with contradictory audit evidence which the auditor happens to obtain while performing other required procedures, or if the auditor needs to perform certain specific procedures to seek such contradictory audit evidence.

Developing a framework on professional skepticism

We do appreciate that the concept of professional skepticism is one which is abstract and principle-based, and as a consequence, there are differing levels of interpretations and applications.

In this regard, we wish to propose for the IAASB to embark on a project to develop a framework which solidifies the concept of professional skepticism. This may be done by extending upon the work of the IAASB Professional Skepticism Working Group to date.

Although we recognise that this may be a challenging task, we think that it may be worthwhile for the IAASB to look into a project in defining professional skepticism in more pragmatic and measurable terms, given that it is the cornerstone of the audit profession.

One factor to consider could be to introduce a criteria or measurement, to help auditors assess how professional skepticism has been applied.

Element of unpredictability in audits

We have heard feedback of audits being increasingly predictable and this leads to concerns over the effectiveness of audits in detecting material fraud. While paragraph 29 (c) of ISA 240 already requires the auditors to incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures, we think that the guidance materials in paragraph A36 may not accord sufficient emphasis on the importance of this concept of element of unpredictability. The current examples, while valid, are rather

broad and might give an impression that only minor tweaks are required of the auditor in order to fulfil the requirement of paragraph 29 (c).

Forensic audit

While ISA 240 does indicate certain situations where the auditor should investigate further, such as when there are doubts over the authenticity of a document, we find that there is insufficient guidance on how deep the auditor needs to dig.

In this context, we note that forensic audits are very different in nature and in terms of cost. We believe that the ISAs could provide clarity into how and when the auditor evaluates a forensic audit to be necessary. Apart from the benefits from a technical aspect, such clarity would also aid the auditors in highlighting to those charged with governance of the need for involvement of forensic experts and ease discussions over increased costs of the audit.

In furtherance to our comments in response to Questions 2 (a) and (b) above, while it is meaningful to introduce the concept of suspicious mindset, it is critical to first solidify the concept of professional skepticism as suggested in our response to Question 1.

There needs to be clear distinction between the two states of mind. Guidance is necessary for the auditor to assess their circumstances within the spectrum of professional skepticism and suspicion.

This distinction and guidance to navigate between professional skepticism and suspicion are critical as the implications to the nature of the audit and its costs could be very different. Once suspicion is warranted, there will be wide ranging implications to the auditor's strategy, procedures and reporting.

We think that the above considerations on professional skepticism and suspicious mindset should be applied consistently across all audits. When there is sufficient clarity as to how the auditor navigates between professional skepticism and suspicion, enhanced considerations and/or procedures will then be applied to those instances where there is merit for suspicion.

We agree with the DP that firm culture is a key component of audit quality and a lack of clear firm policies and procedures with regard to audit quality is a cause for poor audit quality. While standards can endeavour to influence mindset and behaviour, firm culture plays a critical role in driving behaviour that impact audit quality.

Paragraph 32 (b) of the recently issued ISQM 1 requires personnel to demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.

In our view, there needs to be an increased emphasis within ISQM 1 on the accountability of the engagement partner vis-à-vis other firm personnel. We note some commendable firm practices where engagement partner remuneration is linked to audit quality. Any major audit quality issues will have a direct impact on an engagement partner's remuneration and prolonged audit quality issues may even result in an engagement partner's dismissal from the firm.

Appropriate actions which commensurate with the engagement partner's responsibilities are important as the tone from the top ultimately cascades down to the engagement team and drive how the audit is carried out.

We think so. Especially in the area of integrity, although the IESBA Code of Ethics is clear and forceful on this matter, due to the lack of disclosure on the part of the auditor, it is highly probable that many of the auditors are not properly complying with the prescriptions about this fundamental principle of the Code

[International Federation of Accountants \(IFAC\).pdf](#)

IFAC supports a principles-based approach to standard setting and believes that changes to the ISAs should be founded on robust evidence.

In general, the existing requirements that already require additional procedures when fraud is suspected or identified (i.e., are scalable) and the recently completed revised standard on risk identification and assessment ISA 315 (Revised 2019) are considered appropriate and therefore the ISAs do not require far-reaching changes.

We are concerned that Alternative A - enhanced procedures to all entities as part of the audit (no matter if there is a specific fraud risk or not) would not be practical or cost effective for the majority of audits. While different stakeholders' interests differ, a suspected fraud leading to a material misstatement has to be addressed whatever the type of entity. If the client will not cooperate (i.e., investigate properly itself or pay for the audit to cover this with forensics if necessary) the auditor faces a scope limitation and likely disclaimer of opinion.

We also note that a fraud in an SME and fraud in a large entity are potentially very different, which may need to be considered by the IAASB as it considers any work it undertakes going forward.

The enhancement of procedures only for entities where certain specific triggers have been met (e.g., only in circumstances where there is reasonable suspicion of fraud), which is included as one of the descriptions in Alternative B (enhanced procedures apply conditionally as part of the audit depending on facts and circumstances), would be in line with the ISAs being principles-based and taking a risk-based approach. Guidance for when to apply forensics (what tests, how much, where and by whom) might be needed e.g., providing clarity when indications are sufficiently strong as to warrant further measures. However, this needs to be balanced with the fact the auditor is required to obtain reasonable but not absolute assurance that the financial statements are free from material misstatement and an unreasonable trigger should not result in disproportionate audit work being undertaken.

We note the cost is likely to be proportionately higher for SMPs who may need recourse to external forensic services, compared to those able to access inhouse forensic specialists. In addition, as noted in the DP, ISA 240 (A35) already includes that auditors may respond to identified risks of material misstatement due to fraud by assigning additional individuals with specialized skills and knowledge, such as forensic and IT experts, to the engagement. The IAASB could also explore a better clarification on the way the auditor would connect fraud risk factors to the assessment of risk of material misstatement at both assertion levels and financial statements as a whole.

Overall, we are not convinced that changes to the ISAs will address the "performance gap" or make a meaningful difference under the current audit model (i.e., reasonable assurance and the opinion required of the auditor). It may therefore be worthwhile exploring enhanced procedures required conditionally outside the scope of the audit depending on facts and circumstances (Alternative C, e.g., introducing a new subject-matter specific standard related to fraud for these circumstances). In IFAC's response to the Brydon Review it was noted that unless an engagement is fraud specific, the annual audit is unlikely to be the appropriate vehicle for detecting fraud. The IAASB could explore the need (and potential development) of assurance standards for complimentary (voluntary or required in some jurisdictions) assurance engagements. For

example, management and TCWG may seek enhanced support (specific assurance engagements) from the auditor if they have concerns on specific matters or where national legislation might require auditors to perform supporting assurance services supplementary to the audit for certain entities.

In our view, the IAASB's immediate focus should be on developing support material outside the ISAs (non-authoritative guidance) and encouraging other stakeholders (e.g. PAOs and audit firms) to provide further education and training. For example, this could address the mind-set of the audit team and issues such as unconscious bias, which may occur during the phases of fraud identification and fraud response procedures.

Kriton (KNL)

We propose the following amendments to ISA 240:

Clarifying the definition of the term fraud (and, for example, the distinction between theft, embezzlement and fraud, as well as the reason why this distinction is important).

Modifying the third criterion of the fraud definition: to obtain an advantage and/or harm another.

Expanding the scope of ISA 240 to other aspects of financial-economic crime.

Clarifying the relationship between fraud, materiality and the application of ISA 240

Explaining more clearly what a requirement means or what the requirement is intended to cover.

Clarifying the application and other explanatory material. They are now too superficial and open to multiple explanations.

Clarifying what may be expected of the auditor, management, those charged with governance and others with regard to the roles and responsibilities when it comes to preventing, discovering and correcting material misstatements resulting from fraud or financial-economic crime.

Recording the definition of a fraud signal.

Implementing the principle of 'spectrum of inherent fraud risks', analogous to ISA 315 and ISA 540.

Making the requirements for the fraud risk analysis more concrete. Examples include identifying fraud risks, regardless of materiality and any relevant internal control, subsequently assessing the inherent fraud risk and evaluating the significance.

Clarify that a risk of (material) misstatement due to fraud is a significant risk because the auditor must pay particular attention to this risk on the premise that such misstatements are more difficult to detect because of intent and misrepresentation. In the current situation, many auditors assume that there is significant risk because it is 'mandatory' under ISA 240, without understanding the background to it.

Making the requirements for identifying the internal control measures relevant to the audit more concrete, as regards risks of misstatement resulting from fraud.

Where possible, introducing the principle of scalability with regard to the response to the identified risks, as is also the case with ISA 315 and ISA 540.

With regard to the response to the risk of management override of controls, clarifying why the requirement for journal entry testing is included. In the current situation, many auditors fail to recognise that investigating 'conspicuous journal entries' contradicts the premise that fraud involves intent and deception. Furthermore, clarifying the requirements for the use of criteria for investigating journal entries, such as substantiation of the choice of the criteria and the reproducibility of the test work.

Including a concrete step-by-step plan for the activities that follow the identification of a fraud risk factor, a fraud signal and suspicion of fraud, respectively.

Mexican Institute of Public Accountants (IMCP)

To issue guidelines on areas with the highest risk of fraud. For example:

Revenue recognition;

Related parties;

Management overriding of controls;

Fair value and intangible measurement;

Other accounting estimates.

The use of the concept "suspicious mindset" is not considered convenient. The term professional skepticism should be used. The need to maintain such skepticism in general, and especially in areas of high risk and prone to fraud, should be emphasized, as this would help to improve the identification of fraud when planning and executing the audit. It is necessary to have broader guidance and examples of areas and specific situations where the skepticism is critical.

New York State Society of CPAs (NYSSCPA)

When a significant fraud occurs, financial statement users and the investor community will ultimately raise the question, often seen in the press, "where were the auditors?" This is especially true when the fraud occurs over an extended period of time and is undetected during such period. Public perception of how the auditor's responsibility for fraud is understood is complicated by the countries the client does business in, the nature of the business environment in those countries, the extent and effectiveness of government and other regulation, the purpose of the audit and the level of risk of material misstatement at the entity level.

We believe a final standard would be most useful if it were to provide auditors with guidance that might enable discovery of fraudulent activity that has no material effect in any one audit period but is material only when its effect is aggregated over several periods. Otherwise, we do not see a compelling reason to prescribe enhanced or extended procedures for all entities to address fraud risks. We think the upgrades to be made in ISA 315 will likely provide better focus and evaluation of risk. Many firms' methodologies ask their auditors to designate inherent and control risks with fraud risk characteristics, based on characteristics of the entity being audited. Other firms isolate their fraud risk evaluations at the account/assertion level as a separate exercise. Properly applied, both approaches can be effective.

REA Auditores - Consejo General de Economistas (REA)

Although we do not consider additional or "improved" requirements necessary, we would like to mention some aspects that are mentioned in the publication of the Canadian Public Accountability Board and that could be considered in a possible guide to action in this regard:

Fraud risk management program

A company's susceptibility to fraud, whether due to fraudulent financial reporting or misappropriation of assets, is significantly affected by the robustness of its fraud risk management program. The program includes a company's fraud risk governance policies, fraud risk assessments, and fraud detection and prevention controls. An effective fraud risk management program creates a strong fraud deterrent effect. In

more than half of the audits we inspected, auditors evaluated aspects of the company's fraud risk management program to inform their fraud risk assessments. The procedures included evaluations of:

- Code of conduct communications and related approvals by employees,
- the processes in place to investigate fraud and take corrective action, and
- the quality of supervision exercised by the audit committees over the program.

These procedures help auditors gain an understanding of the strengths and weaknesses of a company's fraud risk management and where opportunities exist for bypassing internal controls and for fraud to occur.

Assessment of the Whistleblower Line

In a global study on fraud, the effectiveness of an evaluation of the effectiveness of the whistleblower line was evidenced. The audit procedures included:

- Assessment of the implications of whether the whistleblower hotline is run by the company or outsourced to a third party.
- Assessment of the hotline escalation process, including whether complaints / suggestions are dealt with in a timely and appropriate manner.
- Mock complaints from whistleblowers. Some auditors submitted anonymous complaints through the hotline to confirm their understanding of how complaints are received, escalated and resolved.

Assessing the effectiveness of whistleblower hotlines also helps the auditor to understand the tone at the top of the company, including the importance placed on ethical conduct.

No.

We consider that the International Standard ISA 240 (of 2013), in Spain NIA-ES 240, which deals with the responsibilities of the auditor with respect to fraud in the audit of financial statements, contains sufficient requirements to meet the auditor's objectives when respect; this is:

- (a) identify and assess the risks of material misstatement of the financial statements due to fraud;
- (b) obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, by designing and implementing appropriate responses; Y
- (c) respond appropriately to fraud or signs of fraud identified during the audit.

This standard develops the way to apply ISA 315 and ISA 330 in relation to the risks of material misstatement due to fraud.

It should be taken into account that, as established in ISA 240 itself in relation to the auditor's responsibilities with respect to fraud, "The auditor who performs an audit in accordance with the ISAs is responsible for obtaining reasonable assurance that the Financial statements taken as a whole are free from material misstatement due to fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even if the audit has been properly planned and executed in accordance with the ISAs.

The standard itself recognizes that the inherent limitations are especially important and significant in the case of misstatements due to fraud. The risk of not detecting material misstatements due to fraud is greater than the risk of not detecting them as fraud can involve sophisticated and carefully organized plans for their concealment. The auditor's ability to detect fraud depends on factors such as the expertise of the

perpetrator, the frequency and extent of the manipulation, the degree of collusion, the relative size of the individual amounts manipulated, and the hierarchical rank of the fraud. Therefore, while the auditor may be able to identify the existence of potential opportunities to commit fraud, it may be difficult for him to determine whether misstatements in areas where judgment is necessary, such as accounting estimates, are due to fraud or error.

In this sense, the standard refers to the need for the auditor to maintain an attitude of professional skepticism throughout the audit, taking into account the possibility of management circumventing controls and recognizing the fact that audit procedures that are effective for error detection may not be effective for fraud detection.

South African Institute of Chartered Accountants (SAICA)

Examples of situations where a suspicious mindset may be required include those where:

There is a higher risk and susceptibility of material misstatement;

Fraud indicators are present;

Material errors are detected;

Complex judgement is required;

Audit evidence is inconsistent or contrary to the initial risk assessment

Enhancements could be made in the explanatory paragraphs in ISA 240 of these scenarios where a heightened level of professional scepticism may be required to be applied by the auditor and there would be more of leaning towards complete doubt in the professional scepticism continuum.

ISA 240 may also be enhanced to better emphasise the relevant considerations for determining the need to make use of a forensic specialist. For example ISA 240.30(a) and A35 could give detailed examples of the various scenarios that may lead to the engagement team requiring the services of a forensic specialist. The involvement of forensic specialists should be assessed on a risk-based approach and should be targeted towards specific risks identified by the engagement team. A risk-based approach is likely to be more suitable than a broad criteria such as the size of an entity or listed entity. For example, non-listed entities do not necessarily have a lower fraud risk profile than listed entities. A general involvement of forensic experts in audit engagements could further widen the expectation gap as this could possibly create an expectation that a forensic audit is being performed.

SAICA does not believe the auditor's responsibilities need to be expanded when it comes to non-material frauds. However, the IAASB could consider enhancing the current material in the ISAs regarding the auditor's responsibilities when non-material fraud is identified (whether by the entity or the auditor) in terms of evaluating the implications on the audit as a whole. For example, greater emphasis could be given to understanding the actions taken by management in response to the identification of fraud, and evaluating the implications this understanding may have on risk assessment, the auditor's understanding of the entity's internal control, the reliability of audit evidence, and the need to exercise professional scepticism. The IAASB should also consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors.

SAICA is of the view that it would not be appropriate to establish a general criteria for the possible enhancements as the risks identified by auditors are often entity-specific. Therefore, any enhancements to ISA 240 or any other ISA, where relevant, should be in relation to all audit engagements. Any decisions to

create a broad criteria of application should be made per jurisdiction in consultation with the appropriate regulators and affected stakeholders.

SAICA is of the view that the IAASB should continue in its endeavours to educate the profession about the concept of professional scepticism rather than introducing a new concept that may create further confusion. This could lead to a situation where there are two concepts that the profession has an inconsistent understanding of. The IAASB should consider issuing implementation guidance on professional scepticism to emphasise the practical aspects that auditors tend to struggle with on this concept. The concept of a “suspicious mindset” is likely to require the traits of a forensic auditor which an external auditor may not be appropriately trained in. Furthermore, including such a requirement in the ISAs could further widen the knowledge gap in particular as the public may expect that the auditors have these skills. The additional procedures performed as a result of this new concept could result in additional time and fees that the clients may not be readily willing or even able to absorb.

SAICA is of the view that the objectives of the auditor in ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements (ISA 240), are clear and appropriately set out even though the expectation gaps may continue to exist. For example, ISA 240 clearly points out that auditors should be aware of the risk of fraud and design appropriate responses if fraud risk factors are identified. Although the requirements are clear, SAICA’s view is that guidance is needed to give more detail about how the auditor can practically go about meeting these objectives in specific situations that may exist in practice. Guidance and practical examples can be enhanced to provide auditors with information on the potential fraud schemes and fraud risk factors that may exist as well as how the auditors should respond in these potential scenarios. The IAASB should consider issuing implementation guidance in the form of staff practice alerts in this regard to allow for more flexibility in terms of the content as well as the speed and frequency at which such guidance can be updated, thereby contributing to narrowing the performance gap as it relates to fraud.

There is currently no requirement within the ISAs to describe specific procedures performed and findings obtained regarding risks of material misstatement due to fraud in the auditor’s report, although such information may be included if it is determined by the auditor to be a key audit matter. We highlight, however, that such information is now required to be communicated by auditors in the UK. We suggest that the IAASB explore the inclusion of enhanced material in the ISAs in this regard, including factors to consider in determining whether fraud, or fraud risk, may be a KAM. We also recommend that the IAASB monitor UK investor views regarding the provision of more information by the auditor as to the fraud risks that the auditor considered and their related audit response to help inform their considerations in this area.

Union of Chambers of Certified Public Accountants of Turkey (TURMOB)

The principles and requirements set forth in ISAs are sufficient to address detection of fraud within the context of providing reasonable assurance to the financial statements. Still, IAASB can issue guides for auditors to improve the applications of ISAs with regard to fraud in audit of financial statements.

Wirtschaftsprüferkammer (WPK)

Generally, we welcome all reasonable measures that help sensitize the profession for fraud related issues, create awareness and foster professional scepticism / suspicious mind. We consider such measures to be rather of educational character than comprehensive audit standard requirements.

Nevertheless, the introduction of a new term ‘suspicious mindset’ will require an explanation of its meaning and a clear distinction from ‘professional scepticism’. Accordingly, we rather support the specification of ‘professional scepticism’.

9. Individuals and Others

Alvaro Fonseca Vivas (AFV)

More training is needed in risk matrices and cases found or the experience of the work carried out by other auditors.

Yes, I agree that every day the procedures must be improved and, in particular, fewer companies should be left to the auditors, so that they improve the quality and assurance of the information, because the firms or franchises of audit firms at the local or international leave many clients to a single auditor, and therefore fraud and crime are not easy to determine or detect, hence the audit risk is very high and many errors, irregularities and fraud materialize, for the little time taken to perform audit work or procedures on the sample of operations and transactions in organizations.

It is important to mention it within the ISA, because at the time of the letter of commitment and the visit to the organization, the guidelines should be established in the planning of the audit and train the auditors or be very attentive to the work they will perform or in the procedures followed, where the aspects that generate doubts or uncertainty about the operation or the transaction that is being reviewed will be oriented and can generate findings.

Explaining it a little more and based on what you establish in the document in section II of Fraud, "As the subject of fraud is often interrelated with the non-compliance of laws and regulations, the information gathered through the questions of This discussion paper may also inform the need for possible future changes in the auditing standard related to the consideration of laws and regulations in an audit of financial statements ", this would help make it different for each type of organization in each type of country, this would help the team in reasonable security.

Christian Minarriz (CM)

I think a "suspicious mindset" would not be appropriate.

Audits are different to fraud examinations because fraud examinations typically require the existence of "predication" as a precondition to start the engagement (according to ACFE Fraud Examiners Manual, predication "is the totality of circumstances that would lead a reasonable, professionally trained, and prudent individual to believe that a fraud has occurred, is occurring or will occur"). In an audit, it would be inefficient and impractical to have a "suspicious mindset" because it would give the idea of suspecting fraud where there are no indications of it. It would also create unnecessary friction with management. I think a correct application of professional skepticism would require to be further alert and inquisitive when red flags are found, while a more neutral attitude is applied when no red flags are found.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 01 Forensic specialists

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee also encourages the IAASB to approach the subject with an open mind: for example, building solutions based on the audit being "not forensic in nature" and noting that many audit firms do not have access to forensic specialists (page 18) may limit the IAASB's chances of achieving the right outcomes. The IAASB will, of course, need to be proportionate in any final proposals, and forensic expertise is unlikely to be necessary on all audits.

International Forum of Independent Audit Regulators (IFIAR)

Whether the identification of material misstatements in the financial statements due to fraud requires the use of specialists, generically or in certain circumstances, and if so, what such specific circumstances could be. In this context it may be helpful to understand the extent to which fraud specialists are currently engaged or included in audit teams, and, if so, what is the nature of the procedures they are performing.

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Yes. In our view, the auditor should have enhanced or more requirements regarding fraud in an audit of financial statements, to meet today's evolving expectations of the public. Overall, we do not believe that these enhancements need to extend beyond the scope and purpose of a financial statement audit (i.e. to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels) to effectively enhance quality.

Section II specifically proposes the enhancements detailed below.

Requiring the use of forensic and other relevant specialists

The IAASB is interested in perspectives about requiring the use of forensic specialists or other relevant specialists in a financial statement audit; and, if considered appropriate, in what circumstances the use of specialists should be required.

The Discussion Paper further states that "... requiring the use of forensic specialists on an audit engagement ... may help narrow the evolution gap by strengthening the procedures of the auditor with respect to fraud ... Specifically, it has been noted that forensic specialists may be used during the engagement team discussion about possible areas of misstatement arising from fraud, during inquiries with management and others, and when performing audit procedures in response to certain risks of material misstatement".

We note that this is already performed at some firms and on some engagements, as it relates to:

The engagement team discussion.

Designing and performing audit procedures in response to identified fraud risks or suspected fraud.

Mandating forensic specialist involvement may result in this being applied more broadly and more consistently; however, it may not have a material impact, unless this is complemented with requirements around the nature, extent and timing of their involvement. Other considerations that are relevant to this proposal are matters related to cost, independence of the forensic specialists and availability.

Practical pitfalls that undermine the efficiency of specialist involvement include:

Involving the specialist too late in the process.

Not providing the specialist with complete, accurate or relevant information.

The efficiency of specialists' involvement is highly dependent on the quality of information provided to them by the engagement team (as specialists generally do not have independent access to the client). So, engagement teams still need to apply professional skepticism and appropriately identify fraud risk factors, to bring this to the specialists' attention. Should they fail to bring the relevant information to the attention of the specialists, the latter may also be unable to identify the risk.

However, combined with additional requirements around the nature, extent and timing of the specialists' involvement, this proposal may result in a more robust risk assessment through enhanced collaboration between engagement teams and specialists.

In addition, we note that unless there is also a requirement to report on the specialists' involvement to the stakeholders, stakeholders will still not "see" this "benefit". The outcome of the specialists' involvement only feeds into the audit plan and may or may not reap tangible results, depending on the facts and circumstances of the engagement, i.e. whether there is fraud or not and whether this was identified or not. As such, stakeholders will likely remain oblivious to the additional audit effort in the absence of a complementary communication and/or reporting requirement.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

Use of forensic specialists or other relevant specialists

The general provisions of the ISAs apply to the use of forensic specialists or other relevant specialists (for example in cybersecurity and data analytics) in an audit of financial statements. The IAASB should explore whether the auditor should be required to consider the need for forensic specialists or other relevant specialists in certain circumstances. For example during the risk assessment, notably when considering the possibilities and likelihood of fraud occurring, when there are signals of fraud, or when a fraud involving management has been identified or is suspected.

The use of a forensic specialist does not affect the extent of the auditor's responsibility for the audit. The auditor remains responsible for forming and expressing the audit opinion. In addition, it is important for the auditor to be clear on the expertise expected from that specialist and the link with the audit engagement. Forensic specialists are generally engaged after a trigger event has occurred to analyse specific issues and their engagement does not exempt the auditor from performing the procedures required to achieve the audit objectives. Discussing the need for forensic specialists' involvement with TCWG may prove beneficial.

National Association of State Boards of Accountancy (NASBA)

NASBA does not believe that forensic resources should be required in a financial statement audit unless material fraud is suspected. In such case, the auditing standards could suggest additional procedures, which may include adding forensic resources to the audit team.

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

Increased Use of Forensic Specialists or Other Relevant Specialists

What our stakeholders told us

Practitioners and those charged with governance believe a requirement to use forensic specialists on all audit engagements may increase the expectation gap because users may believe that a forensic audit was conducted. While practitioners agree that involving forensic specialists in the audit would enhance audit procedures related to fraud risks, they support the flexibility provided in the extant standard where this decision is left to the practitioner's professional judgment, rather than such involvement being mandated. Scalability concerns were also raised by practitioners since there are limited forensic specialists available and their cost may be difficult to rationalize on small audits.

Regulators were the only group that supported requiring involvement of forensic specialists. They believe this specialized skillset is needed on the audit team and since audits already involve many experts, this is another area where an expert should be required to be involved.

AASB views and recommendation

We support the flexibility currently provided in the standard for the auditor to apply their professional judgment when determining how to respond to identified fraud risks. As is the case for the involvement of any expert in an audit, involvement of forensic specialists should not be mandated. The involvement of a fraud specialist should be based on the fraud risks identified in the engagement and potential consequences of a fraud.

However, we believe involvement of forensic specialists in risk assessment should be encouraged. Initial academic research shows that involving forensic specialists in the risk assessment process helps the auditor focus their efforts and leads to efficiency gains which largely compensate for the increased cost associated with consulting a forensic specialist.

Also, we believe audit quality could be enhanced through fraud training for auditors, and guidance on the use of forensic specialists. We encourage the IAASB to consider:

Developing guidance on when it is appropriate to involve forensic specialists and what type of procedures they can assist with - Academic research indicates that auditors could benefit from some assistance with identifying risk factors related to fraud, and as well, auditors struggle with how to respond to those risks. Using forensic specialists to assist auditors with these steps would enhance the audit procedures related to fraud risks conducted on the engagement. Providing guidance on when to involve forensic specialists in the audit would aid in building consistency in the type of audit procedures conducted and encourage their use at appropriate phases of the audit; and

Encouraging educational institutions and professional bodies to require additional fraud training for auditors – Requiring specific fraud training, as well as how to utilize data analytics to conduct audit procedures related to fraud would enhance an auditor's skillset. There is also an opportunity for auditors to learn how to utilize forensic tools and techniques on financial data since there are similarities in application. The IAASB should encourage educational institutions and professional bodies to add fraud courses to certification requirements for auditors.

Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

Use of forensic experts by auditors

We consider that, based on their judgement and individual engagement circumstances specific to each engagement, the auditors may decide to use additional individuals with specialised skill and knowledge, such as forensic and IT experts. In other cases, the audit engagement team may itself use forensic-type audit procedures. As, the integration of this approach into the risk identification process of an audit may not be proportionate (particularly in the absence of an identified risk), we do not recommend the systematic use of a forensic expert in the audit. These experts could be used when there is some trigger, e.g. an indication or fraud.

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

The nature of the procedures used by forensic specialists are not generally different from those used by financial statement auditors. The main difference is how they are used and in what combination. For example, forensic specialists also use inquiry as a procedure, but they use inquiry in a more systematic and aggressive way to find gaps or inconsistencies in responses to enable the specialist to gather evidence that may contradict the documentary record and, for example, demonstrate forged evidence. The length and intensity of such inquiry exceeds that normally used in an audit of financial statements, and such inquiry is used in combination with other forensic approaches, which also exceed those used in audits of financial statements in length and intensity. Using such forensic approaches generally in a financial statement audit would cause auditors to perform such procedures even when the risk of a material misstatement due to fraud has been assessed as being acceptably low, which would cause an exorbitant increase in the costs of audits. For this reason, such forensic approaches need to be directed to instances where fraud is suspected, rather than being used for financial statement audits generally.

Since the nature of the procedures used by forensic specialists is not generally different from those used by financial statement auditors, we believe that when financial statement auditors identify and assess risks of material misstatements due to fraud at assertion level as not being acceptably low, they are capable of performing procedures to appropriately respond to that risk. Furthermore, when financial statement auditors suspect potential material misstatements due to fraud, they are generally capable of designing procedures to respond adequately to that suspicion. Consideration may be given to exploring whether, when after having performed such procedures to respond to such a suspicion, the financial statement auditor still has reasonable grounds for believing that the audit risk due to fraud is not acceptably low, that auditors would need to consider whether an expert with expertise not normally within an engagement team, such as forensic specialists, may be needed.

Korean Institute of Certified Public Accountants (KICPA)

The IAASB is interested in perspectives about requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

(KICPA Comment) When auditors ① bring into question the reliability of documents or find frauds or signs of frauds that could make substantial impacts on financial statements or whose impacts are not identifiable, arising from ② embezzlements or ③ accounting frauds, it would be necessary for the IAASB to set out in the ISAs that the frauds or signs of frauds should be notified to the TCWG to come up with necessary measures, such as hiring forensic specialists or other relevant experts, instead of auditors doing forensics by themselves.

Royal Netherlands Institute of Chartered Accountants (NBA)

We do not consider it necessary to require forensic specialists to be involved in every audit by default. We consider it useful involving them where deemed necessary in a specific audit when there are specific risks or for example in a first time audit. A trigger mechanism could be helpful. A broader solution would be to train the audit staff mandatory and permanently specific on identifying fraud risks and respond to these risks. Experienced auditors should assist in this and audit staff should be given the possibility to build up experience. Sharing knowledge and exchanging lessons learnt from specific cases will be useful. Guidance in this respect in or outside ISA 240 will be useful.

4. Accounting Firms

Ernst and Young (EY)

Use of forensic specialist on audits

Forensic specialists can provide increased insight into the fraud risks of an entity and can also assist with the development of procedures to respond to fraud risks. However, as highlighted in the Discussion Paper, we agree that the effectiveness of using forensic specialists must be considered in the context of the objectives of each financial statement audit and the nature and circumstances of the specific engagement. As the facts and circumstances can vary significantly from one audit to another, the use of forensic specialists would not in all instances result in an increase in audit quality. Further, there are capacity constraints, as well as cost implications, to consider related to the availability and use of forensic specialists.

We therefore do not believe that the use of forensic specialists should be required on all audits. We suggest including guidance in ISA 240 that forensic specialists may be involved in the auditor's identification, assessment and/or response to fraud risks. Consideration could be given to establishing a requirement similar to that included in ISA 540 (Revised), where the auditor is required to determine whether the engagement team requires specialized skills and knowledge to identify and respond to fraud risks; however, the scalability of such a requirement for less complex audits would need to be determined.

We also believe it is important to recognize in the guidance that a financial statement audit is broader in scope and not forensic in nature, and as a result not as effective as a separate forensic audit engagement given that forensic specialists are typically accustomed to a scope of procedures that is often narrowly focused on specific alerts or allegations.

Because of the expertise of forensic specialists to respond to specific instances of identified or suspected fraud, we support the consideration of a requirement for the auditor to determine whether a forensic specialist should be involved to assist in determining the implications of any such instance for the audit, which could include non-material frauds unless they are clearly inconsequential.

GTI

Financial statement fraud can manifest itself in many ways. It is much broader than just misstatement of the financial statements and can be perpetrated through the omission of information, through focus on reporting measures that are not required by generally accepted accounting principles, and through the other information provided with the financial statements. Other frauds, especially those that involve collusion, or complex technology, and cyber security attacks are often highly complex and difficult to detect.

We are of the view that to significantly move the needle on the detection of fraud in an audit of financial statements, a substantial change in the auditor's approach to fraud would be needed, such as requiring a forensic audit to be performed. However, we believe that such a change in approach would not produce a net benefit to investors, either because of the excessive cost or the increased time needed to perform the audit resulting in delays in the provision of financial information.

It is also important to note that changes to the auditing standards are changes to the audit of all companies; the vast majority of which will not be subject to financial reporting or other fraud. It is incumbent on the standard setters to consider the cost versus the benefit to the market of such changes.

As such, we would recommend that before developing additional auditing requirements, root cause analysis is performed to determine whether financial reporting frauds have resulted from insufficient requirements in the auditing standards leading to an ineffective or inadequate audit or whether the frauds resulted from an inappropriately executed audit based on existing auditing standard requirements.

Increased use of specialists

The Discussion Paper considered the need to require use of a forensic specialist on an audit engagement. We note that the term ‘forensic specialist’ could be very broad ranging and an appropriate definition of what this encompasses in terms of skills and competencies in relation to an audit engagement would be needed before inclusion in the ISAs.

We are of the view that a forensic specialist should be used in the same manner as other specialists are used in performing an engagement. For example, a valuation specialist may be used on an engagement when a heightened risk in the valuation of goodwill is identified. Similarly, a forensic specialist could be employed when a heightened risk of fraud is identified. So, whilst we agree there will be instances where the use of such a specialist is necessary or appropriate, we do not believe that it is appropriate to require the use of forensic specialists as a matter of course on all engagements. Such a requirement would not be scalable and for less complex audits, the use of a forensic specialist may simply not be necessary. We are of the view that requiring the use of a forensic specialist in all audits would be anti-competitive; not all firms would have the resources to go down that route. It would also presuppose that there is sufficient availability of appropriately trained and qualified experts in the marketplace.

An alternative approach may be to focus on providing training for auditors on forensic skills. This could be developed by IFAC in conjunction with jurisdictional member bodies and could be required as part of the accountancy qualification for those new to the profession and required as continuing professional education or development for qualified professionals.

Overall, we are of the view that adding new requirements or enhancing requirements in the current auditing standards on fraud and going concern will not reduce the expectations gap nor improve audit quality or reporting on fraud and going concern. In fact, it may actually serve to broaden the expectations gap. Additionally, continual changes to the auditor’s report are not an effective response to narrowing the expectations gap.

KPMG

Requirements for auditors to involve forensic specialists on audit engagements more broadly

We consider that forensic specialist involvement can be of significant benefit on an audit engagement when performed in a targeted way that makes best use of forensic specialists’ skill sets. ISA 240 currently envisages this, for example at paragraph A35, where it refers to “assigning individuals with specialised skill and knowledge, such as forensic and IT experts”.

Accordingly, our recommendation is to consider enhancing the current standard at paragraph 30(a) and A35 to better emphasise the relevant considerations for determining the need for forensic specialist involvement, as well as involvement of other specialists e.g. valuation specialists, to assist the engagement team in robustly challenging management’s assumptions with respect to estimates, or legal or tax specialists, to assist in robustly challenging management’s assumptions and judgements in these areas. This would be aligned to the fact that an audit is a risk-based engagement, such that specialist involvement, if determined to be necessary, is to assist in responding to a particular risk already identified by the team and therefore their involvement is specifically targeted.

However, we believe this proposed solution is likely to be of more limited benefit if envisaged in the context of establishing a requirement for forensic specialist involvement across all audits or audits which meet high-level criteria such as size, as well as involvement in a generic and non-targeted manner such as during risk assessment procedures. Firstly, we note that engagement teams possess in-depth knowledge of clients

and their industry sectors, which a specialist may not and therefore specialist contribution to audit quality may be limited unless it is appropriately focused, in accordance with their skill set.

We also note that even if the solution is applied based on broad criteria such as size, or whether or not an entity is listed, rather than being aligned to a risk-based approach, this may also limit its usefulness, e.g. we note that non-listed entities do not necessarily have a lower fraud risk profile than listed entities.

Furthermore, we would caution against a general requirement for involvement across all audits, when the role and responsibility of the forensic specialist is not clearly defined/ is not targeted, as this may instead create a perception that a 'forensic audit' is being performed or forensic auditor skillset is being deployed, which could possibly widen the expectation gap.

We do not consider that the financial statement audit/ financial statement auditors should move into the forensic audit space, noting that a forensic audit is an entirely different engagement to an audit of financial statements, targeted at a very specific element of the entity in response to a particular fraud risk.

MHA Macintyre Hudson (MHA)

We do not believe that the use of forensic specialists should be routinely required by standards. However, standards should continue to provide the engagement team with the option of requiring a forensic specialist's involvement where appropriate in responding to a risk. Forensic specialists' skills are in investigating situations where fraud, or potential fraud, has been identified. Their skillset is not suited to an audit risk assessment, although we accept that their experience in how frauds occurred could be useful in training auditors. We do accept that it may be appropriate to consider a requirement, for Public Interest Entity audits only, to involve a forensic specialist in cases where fraud is suspected or identified.

Although we can see the obvious attraction to other stakeholders of expanding auditor responsibilities, care needs to be taken that, in so doing, the expectation gap isn't widened yet further. Stakeholders need to be aware of the consequences of any extension to the auditor's remit, bearing in mind that an audit is not currently intended, nor able to, identify every fraud. For example, the time and costs involved of some of the proposals made in the discussion paper and other ongoing reviews, such as the requirement to use Forensic specialists need to be weighed against the benefits of their wider involvement.

MNP LLP (MNP)

As noted on page 18 of the DP, you are interested in perspectives regarding requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

In our opinion, forensic specialists should be brought in only when specific circumstances arise (e.g. alleged or suspected fraud). However, this may create a scalability issue based on accessibility to a forensic specialist and the increased cost of an audit, particularly in audits of SMEs, whereby in many cases management and those charged with governance are one and the same.

We believe a requirement for the involvement of a forensic expert in all audits, would increase the expectation gap with users to the role of the auditor in identifying fraud if forensic specialists were brought in more broadly in audits. The public should be aware that, in providing an audit opinion, auditors are using professional judgment to identify any high-risk transactions or suspicious transactions. Auditors cannot practically review all transactions and therefore utilize the concept of "materiality" which is a term not well understood by some relevant stakeholders. IAASB should consider ways to make this terminology more commonplace to reduce the expectation gap.

Moreover, the vast majority of audited financial statements are likely not be subject to undetected material fraud. Any significant changes to standards contemplated should reflect on the costs and benefits to all audits, especially the potentially disproportionate cost to smaller entities.

Moore (MGN)

We note that as things stand, any auditor could use a forensic expert at any time during the course of an audit engagement. We suggest that IAASB might consider how best to articulate the idea that even if forensic (fraud) experts are considered and discounted at the planning stage of an audit, auditors should be aware that as the picture becomes clearer and evidence is obtained the conditions where the use of such experts could actually be indicated may arise. There would be benefit in IAASB re-enforcing the message that the approach to fraud is set out during planning following the initial risk assessment, but it is not set in stone. If revisions, small or large, are needed then revisions should happen.

Notwithstanding our comments on forensic experts above, there are additional considerations around cost and scalability. Forensic experts may be widely available in some jurisdictions but not necessarily all. We already noted above that the title forensic expert might have an extremely wide definition but even ignoring that, the fact is that for small firms in some jurisdictions such experts would be either unobtainable or unaffordable. If the use of forensic experts was mandated only for particular types of audit and the trigger was in any way size related (or classification eg mandated only for PIEs) then there would be dangers around their use being a blunt non risk-based tool. We are aware that in some jurisdictions it is the audit committee that engages forensic experts if fraud is suspected (therefore they may be uninvolved in the identification or evaluation of fraud risk indicators) however even in these circumstances cost can be an issue. It is also worth noting that not all frauds are sophisticated, even in the largest entities.

While we agree that specific skillsets and where possible, experience, are very important when planning and performing audit procedures to assess and respond to fraud risk, we are unconvinced that the use of forensic experts would be a magic bullet. There is no universally accepted definition of what constitutes a forensic expert, and there are a variety of competing professions and qualifications in this field. Should IAASB wish to pursue this line of thought further we suggest that the board considers the questions who, why, when and how. Meaningful and effective requirements might address:

Who - the person/skills that are being envisaged as potential audit team additions;

Why – the triggers for consideration of whether following this route was appropriate (and what might require following this route);

When – at what stage of the process such experts should become involved;

How the additional work performed would be integrated into the main audit effort (and the scope of the additional work).

5. Public Sector Organizations

Australasian Council of Auditors General (ACAG)

This is an auditor judgment expected to be made by the engagement leader having done a robust risk assessment. Forensics specialists may be a suitable response in particular circumstances where a specific fraud risk that poses a risk of material misstatement that is beyond the skills of the generalist audit team to address has been identified.

Use of forensic specialists is unlikely to be an appropriate generic response because it is beyond the scope of an audit engagement and may divert audit attention and resources away from areas of higher non-fraud related risk. Requiring the engagement of forensic specialists must have regard to materiality and recognise time and cost impacts for the audit.

In the public sector context, suspicion of fraud may be referred to other regulatory bodies who have specialised forensic teams.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Use of forensic experts

Forensic audit significantly differs from a financial statement audit in terms of its scope and methodology. Forensic experts generally investigate suspected or known fraud with a targeted approach. Consequently, they need to modify their approach when they are used by auditors in the risk identification process of an audit.

There is no recognised definition of a forensic expert. Forensic experts to be involved in financial statements audit should have an understanding of the audit and its objectives. Experts with this profile are scarce and involving them may increase the cost of audit considerably.

Some forensic-type procedures are already incorporated in detailed testing and analytical procedures that are performed by auditors as a result of their risk assessment. The effectiveness of these procedures could be enhanced by more extensive training of auditors about forensic techniques.

Current ISA 240 and other ISAs do not stop auditors from using forensic experts. In fact, these experts are already involved in many audit engagements. We do not think these experts should always be used though, there should always be some sort of a trigger, i.e., an indication of fraud, to involve forensic specialists.

There is also a risk of widening the expectation gap as having these experts do not guarantee that the audit will identify every instance of fraud. A potential revision to ISA 240 may clarify the fact that involving forensic experts will not be a silver bullet but might be useful depending on the circumstances of the audit engagement, and especially in:

brainstorming discussions during the planning phase of the audit engagement to cover e.g. potential weaknesses in internal control, any history of fraud in the entity's business environment; and/or

designing specific procedures to address fraud risks, and reviewing the results of these procedures; and/or

cases when there is high risk of fraud based on to the audit team's assessment

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

Use of forensic specialists or other relevant specialists in a financial statement audit

In our outreach views on the mandated use of forensic specialists were mixed, with most stakeholders stating that this is likely to increase costs with very little, if any, value added. Furthermore, mandating the use of forensic specialists is likely to be a bigger challenge for SMPs given that in many cases they would need to seek outsourced support. There may also be supply issues as forensic practitioners are specialists within the profession and there may not be enough of them to meet such a requirement. However, our stakeholders did express support for increased involvement of forensic specialists where the auditor's professional judgement is that their involvement is appropriate for the circumstances of an audit

engagement, similar to the use of other experts. Furthermore, some stakeholders also suggested that the use of forensic specialists could be considered to be mandated in the planning stage of listed and/or regulated audit engagements and then based on the auditor's judgement decide if they should be involved throughout the engagement. We do emphasise that such developments should be considered carefully as there is a risk of widening the expectation gap, particularly, in the case where forensic specialists are used and fraud still goes undetected.

As noted earlier in our response to 1(a), the UK FRC is currently consulting on certain revisions to ISA (UK) 240, the equivalent standard on Fraud in the UK. One of the revisions under the Identification and Assessment of the Risks of Material Misstatement Due to Fraud, is the addition of para 27-1 which states 'if the auditor identifies a misstatement due to fraud or suspected fraud, the auditor shall determine whether a forensic expert is needed to investigate further'. We consider that this revision would reflect the views that represent the majority of our stakeholders as noted above, and we therefore suggest the IAASB to consider this.

Consideration should also be given to the appropriate methods by which forensic specialists could be utilised in audit engagements where the auditor's judgement indicates it is appropriate to use such expertise.

Institute of Chartered Accountants of Scotland (ICAS)

Use of forensic specialists

We are not convinced that the use of forensic specialists should be mandated on the audits of public interest entities. However, consideration of their use by auditors in specific circumstances could be more prominently highlighted in the ISAs but their use should be left to the professional judgement of the auditor.

9. Individuals and Others

Christian Minarriz (CM)

Use of forensic specialists: I think that a general requirement to use forensic specialist is not appropriate as availability of specialists is limited. Therefore, using them in all engagements (and even all PIE audits) would reduce the availability for riskier engagements where they may be really needed. I think the most appropriate approach would be to incorporate a specific requirement of considering if a forensic specialist is needed considering our knowledge of the entity, its internal control and its environment, and explaining why it is considered to be not necessary if some specific factors are met (for example, identification of specific fraud risk factors or red flags). It should be noted that the requirement should not be related to a "forensic specialist" but to a "fraud specialist" (as forensic is broader than fraud) and the concept of "fraud specialist" should be defined. Also the fraud specialist should have relevant knowledge to the fraud risks (for example, if there is a fraud risk related to IT, it would be appropriate that the fraud specialist have knowledge of IT fraud risks). Simply requiring "fraud specialist" without considering specific expertise would be as using an expert in the valuation of financial instruments for the audit of the valuation of property. The involvement of the fraud specialists should be determined by the engagement team (for example, if some specific red flags are found, the involvement may be limited to evaluate which fraud schemes may be present and designing specific audit procedures to address them).

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 02 Non-material fraud

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee believes that most of the questions that should concern the IAASB are about how to ensure that existing standards are clear and enforceable and that requirements are coherent across different standards. However, we agree that it would be helpful for the IAASB to consider whether increasing the responsibility of the auditors is warranted regarding fraud that is not related, or immaterial, to the financial statements, or fraud that seems unrelated but could potentially have a material impact when discovered (eg fraudulent product quality certification). This could include the third-party fraud mentioned in the discussion paper. Even if the IAASB determines that auditor requirements and responsibilities are sufficient under the current standards, it would be helpful to be definitive and clear on this.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

The cost of requiring auditors to plan and perform an audit to detect non-material frauds would likely outweigh the benefits in most cases. However, should the auditor identify actual or suspected non-material fraud in the course of the audit they should be required to investigate further, with aid of a forensic expert if needed, and determine the implications for the audit. This is particularly important where the auditor has reason to believe management is involved.

Independent Regulatory Board for Auditors (IRBA)

Additional focus on and procedures in response to non-material fraud

The IAASB is interested in perspectives about the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e. a broader focus on fraud); and what additional procedures, if any, may be appropriate. The IAASB is also interested in perspectives about whether additional audit procedures should be required when a non-material fraud is identified; and if so, what types of procedures.

We agree that "... any misstatement related to fraud that has been identified may be indicative of a bigger issue" and that auditors should, in line with extant requirements, "... assess the impact on other aspects of the audit..." and "... re-evaluate their original assessment with regard to the risk of material misstatement due to fraud and the impact on planned audit procedures in response to those risks ... whether material or not ...". In addition, we believe that the responsibilities of the auditor regarding the above are also clearly articulated in ISA 240.

However, we disagree with the notion that additional procedures are only required to respond to "non-material fraud". Instead, we believe that more robust procedures are required to enable auditors to sufficiently respond to ALL (not just "non-material") suspected fraud. In other words, the standard needs to be enhanced to articulate more clearly what the auditor is required to do when they suspect that a misstatement may be the result of fraud, regardless of confirmation and materiality. We have proposed enhancements in our discussions under question 2) b. ii) below.

3. National Audit Standard Setters

Korean Institute of Certified Public Accountants (KICPA)

As such, the IAASB is interested in perspectives about the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e., a broader focus on fraud) and what additional

procedures, if any, may be appropriate. The IAASB is also interested in perspectives about whether additional audit procedures should be required when a non-material fraud is identified, and if so, what types of procedures.

(KICPA Comment) Evaluation criteria should be specified about qualitative characteristics (motives behind the occurrence of frauds, the possibility of complicity, reasons for control failures, corporate culture etc.) of frauds and then an assessment should be made as to whether frauds could affect the financial statements in a comprehensive or limited manner. If it is concluded that ① the impact of identified frauds are below the materiality threshold, it would be enough to communicate them with the TCWG, as required by the extant ISAs. Only when ② frauds are likely to exceed the materiality threshold, additional audit procedures are considered necessary to be conducted, as we believe.

4. Accounting Firms

Ernst and Young (EY)

Auditor responsibilities for non-material fraud

Financial statement audits are designed to identify material misstatements whether due to fraud or error. We do not believe that the materiality threshold should be altered for the purposes of identifying, assessing and responding to risks of fraud. Doing so would have significant consequences to the scope and costs of the audit, which would require careful consideration with significant levels of stakeholder involvement. We do however agree that the auditor should have a responsibility to respond to identified or suspected instances of fraud, including non-material fraud unless clearly inconsequential. In many cases, the materiality of a matter identified may not be truly understood without further investigation.

As discussed under the Responsibility for Compliance with Laws and Regulations section of the Discussion Paper, fraud is a matter that is often inter-related with non-compliance with laws and regulations. Fraud often constitutes an illegal act. As such, Section 360 of the IESBA Code addresses the auditor's response to identified or suspected instances of non-compliance of laws and regulations.

We believe that the nature of the required responses to identified or suspected instances of non-compliance with laws and regulations as set out in the IESBA Code also appropriately address instances of identified or suspected instances of fraud, including non-material fraud, unless they are clearly inconsequential in line with the provisions of Section 360 of the IESBA Code.

We encourage the IAASB to clarify within ISA 240 the relationship between responding to non-compliance with laws and regulations and responding to instances of fraud. The recently issued Staff publication, Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic, includes a useful list of examples of types of frauds that would fall within the scope of the accountant's responsibilities under Section 360 of the IESBA Code.

We however recognize that the provisions in the IESBA Code are not implemented in all jurisdictions and the IAASB may therefore determine that ISA 240 requires enhancement to address auditor responsibilities for non-material fraud. Any procedures added should be consistent with the requirements of Section 360 of the IESBA Code such that there are not implementation issues for those auditors that need to comply with both the ISAs and IESBA Code.

MNP LLP (MNP)

As noted on page 19 of the DP you are interested in perspectives about the perceived responsibilities of the auditor regarding non-material fraud in a financial statement audit (i.e., a broader focus on fraud) and what additional procedures, if any, may be appropriate.

As noted above, preventing and detecting fraud is foremost the entity's responsibility. As such if a fraud has been identified, the auditor is required to complete procedures as noted in ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. If the auditor can conclude that the financial statements are not materially misstated as a result of fraud, the auditor has met the requirements.

If the auditor is required to perform audit procedures on non-material fraud, this would be in direct contrast with ISA 320, Materiality in Planning and Performing an Audit, which requires the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

If the auditor is responsible for non-material fraud, the guidance under ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements would need to be reconsidered to address such a responsibility.

SRA

3. The Discussion Paper does not include clear suggestions regarding guidance on the subject of non-material fraud. Both the concept and the audit treatment should be elaborated on.

1 As stated under general remarks, item 3, we suggest to elaborate on the concept and the audit treatment of non-material fraud, in order to improve the clarity of the auditing standards in this regard. We do not feel that the requirements in the auditing standards should be extended, as an audit is designed to obtain assurance that financial statements are free of material misstatements.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 03 Professional skepticism

3. National Audit Standard Setters

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

In line with the approach taken by the IAASB in the further development of ISA 540, ISA 315 and ISA 600, we do not believe that simply adding further references to professional skepticism in the ISAs will serve to improve auditor performance with respect to its exercise. As pointed out in the body of our letter, whether or not additional requirements or procedures are needed or not ought to be based upon an evidence-based analysis. For this reason, we refrain from making suggestions as to whether additional requirements or procedures are needed.

Korean Institute of Certified Public Accountants (KICPA)

We believe it is sufficient with professional skepticism on frauds, as described in the extant auditing standards and law and regulation. However, the level of advancements, triggered by technological transformation, might differ, which could change procedures applying professional skepticism depending on circumstances, meaning that guidelines on specified procedures in relation to frauds need to be updated on a regular basis beyond the scope of ISAs.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 04 Third party fraud

1. Monitoring Group

Basel Committee on Banking Supervision (BCBS)

The Committee believes that most of the questions that should concern the IAASB are about how to ensure that existing standards are clear and enforceable and that requirements are coherent across different standards. However, we agree that it would be helpful for the IAASB to consider whether increasing the responsibility of the auditors is warranted regarding fraud that is not related, or immaterial, to the financial statements, or fraud that seems unrelated but could potentially have a material impact when discovered (eg fraudulent product quality certification). This could include the third-party fraud mentioned in the discussion paper. Even if the IAASB determines that auditor requirements and responsibilities are sufficient under the current standards, it would be helpful to be definitive and clear on this.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

The ISAs are designed to provide requirements and guidance for the audit of financial statements. The auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks) falls outside the scope of ISAs. It is a matter more appropriately left to national standard setters and regulators to address having regard to the wishes of stakeholders in their jurisdictions.

Whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback about the auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

While ISA 240 highlights the difficulties in detecting fraud involving collusion, it gives relatively little specific attention to third parties, the only reference in the requirements being in paragraph 36 which, if the auditor has identified a misstatement, requires the auditor to also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. ISA 550 identifies that an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA 240 because fraud may be more easily committed through related parties. It would be helpful to include a cross reference to ISA 550 in ISA 240 to emphasise that in obtaining audit evidence regarding the risks of material misstatement due to fraud the auditor complies also with the relevant requirements in ISA 550.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback about the auditor's role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

The AUASB consider fraud related to third parties an emerging issue that requires further attention. Even though third-party fraud (e.g. cybercrime) engagements are generally undertaken as a separate engagement from the financial statement audit, the point of convergence and impact on the financial

statement audit and fraud risk assessment cannot be underestimated. The potential impact to an entity from cybercrime and the risk of fines/penalties, impact on business operations and cash flows and therefore asset values mean this should be assessed as part of the audit as part of the entity's risk assessment and internal controls evaluation under ISA 315.

Stakeholders generally agreed that this is a significant and growing area that many auditors would not be appropriately equipped to understand the risks. An auditor may be aware of cybersecurity fraud risks at a high level however may not necessarily know when to engage an expert or even adequately identify and rate the risks. We would support activities which consider further how the assessment of fraud controls at an entity is impacted by third party fraud related issues like cyber controls by both the entity and the financial statement auditor.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

We didn't receive any strong feedback that supports revisions to the extant standard regarding fraud related to third parties. We do note however, that some stakeholders noted additional procedures should be considered as the current environment in light of Covid-19 increases risk of third-party fraud that could have material impact on the financial statements. Some feedback suggests that cybersecurity risks and their interaction with financial reporting, should also be considered.

Institute of Chartered Accountants in England and Wales (ICAEW)

Third party fraud: many frauds involve some collusion with or involvement of third parties, but the DP lacks clarity regarding exactly what is being addressed. There was little enthusiasm for enhancing procedural requirements in this area. Some recent high-profile frauds that apparently went undetected relate not to a lack of requirements, but to a lack of application of requirements. This is an enforcement issue, not a standards issue. Even so, there was support for further consideration of the impact of cybercrime on internal controls, regardless of the presence or absence of financial reporting implications. Cybercrime is an important issue for management, and we have encouraged the UK's FRC to consider guidance for directors on these risks, which are widely underestimated.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 05 Rebuttable presumption of fraud risk in revenue recognition

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

We recommend that the IAASB consider whether it remains appropriate to specify a rebuttable presumption of risks of fraud solely in relation to revenue recognition. While we agree that revenue recognition can be susceptible to fraudulent misstatement there are other areas that are also susceptible to fraudulent misstatement, such as inventory and property valuations. Further, the evolving financial reporting frameworks since ISA 240 was issued, including the need for significant judgments and, in some industries, complex processes for making estimates, have increased fraud risk factors. The focus on revenue recognition may result in insufficient attention being given to the many other ways fraud may be perpetrated.

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

Rebuttable presumption related to fraud risks over revenue

Based on stakeholder feedback, we believe research is needed to determine whether the fraud presumption related to revenue continues to be appropriate. Focusing time on this area when it is not always relevant to an audit leads to inefficiencies.

Also, additional application material is needed to clarify how auditors determine when it may be appropriate to rebut this presumption, for example, by providing factors to consider. Use of these factors to decide when to rebut the presumption will help to build consistency. The standard could also provide more and better examples of when it may be appropriate to rebut this presumption since the current example in paragraph A31 of ISA 240, in our view, is simplistic.

Rebuttable presumption related to fraud risks over revenue

Practitioners questioned whether the presumption of fraud over revenue continues to be appropriate. Some practitioners commented that in many cases, this presumption results in auditors spending an undue amount of time designing and performing fraud procedures in areas where for many entities the risks are not high because of the nature of the business. On the other hand, regulators are concerned that auditors are rebutting this presumption too often.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 06 Engagement quality review procedures

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

Enhanced Quality Control Requirements

What our stakeholders told us

Although practitioners are cautious of adding another “checklist” type procedure, they are willing to explore enhancing quality control review requirements. Evidence is required from jurisdictions that have enhanced procedures to demonstrate there has been a positive impact on the auditor’s ability to identify and address fraud risks in the audit. Practitioners recognize this enhancement could be easier to implement compared to the other suggested enhancements discussed in the Discussion Paper since it enhances an existing process rather than creating a new process. Regulators were also supportive of this option since the framework already exists to incorporate additional quality control review procedures and they can be targeted based on the fraud risk profile of the entity.

AASB views and recommendation

It is not clear whether introducing specific quality control review requirements related to fraud would result in better identification of fraud risks and appropriate design of procedures to respond to those risks. However, in principle, quality control review requirements could enhance the audit, for example, through focused discussions about the judgments made in developing appropriate responses when fraud risks are identified. The engagement quality reviewer could hold discussions about the engagement team’s conclusions regarding fraud risk areas and the audit procedures planned to address those risks, including the decision of whether to use a forensic specialist. In exploring this enhancement, we recommend the IAASB examine whether the Japanese fraud standard has enhanced audit quality.

Royal Netherlands Institute of Chartered Accountants (NBA)

Furthermore, quality management might help, but cannot fix the issues that are not detected at the start of the audit.

4. Accounting Firms

KPMG

Additional Quality Control Procedures

The Board questions whether enhancements to quality control requirements may be introduced, directed to fraud. For example, the Board suggests that the Engagement Quality Control Review could be enhanced to explicitly clarify that the EQC Reviewer considers significant judgements made and conclusions reached by the engagement team to address the risks of fraud.

We believe that the proposed revised ISQM standards are fit for purpose in this area, and these suggestions are already addressed by current quality control requirements. However, we would be supportive of enhancements to more explicitly clarify that 'significant matters' subject to EQC review would include significant matters in relation to fraud.

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants in England and Wales (ICAEW)

EQCRs: scepticism was expressed about the efficacy of the enhanced EQCR procedures described in the DP, but there was some support for requirements or application material relating to 'hot' reviews and/or EQCRs for audits in which the risk of fraud is heightened or in which potentially material fraud is alleged, suspected or detected - regardless of the size of the audit. A key area to be addressed is the extent to which EQCRs should cover the work performed by specialists. The current trend is to broaden the scope of EQCRs, but there is a risk of diluting their impact if they become too focused on the work of specialists.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 07 Clearer description of auditors responsibility and objectives

4. Accounting Firms

KPMG

As we describe above, ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements sets the scene regarding the inherent limitations of an audit in respect of detecting material misstatements resulting from fraud, and sets out procedures to assist the auditor in identifying and assessing the risks of material misstatement due to fraud in designing procedures to detect such misstatements.

We consider that, in general, ISA 240 is fit for purpose in setting out the responsibilities of the auditor in respect of fraud when performing an audit of financial statements and in assisting the auditor to fulfil those responsibilities. Accordingly, we are supportive of the proposals set out in the DP that, in our view, would clarify or enhance certain existing requirements, as we consider these changes to be commensurate with the nature and purpose of an audit of financial statements, as well as with the skill set of the audit profession.

However, we would be concerned with proposals that we believe aim to change the role and responsibilities of the auditor more broadly, as well as the concept of an 'audit' more fundamentally. In this respect we highlight, as earlier, that management, under the oversight of those charged with governance of an entity,

currently has, and in our view, should continue to have, primary responsibility for the prevention and detection of fraud in respect of an entity. This responsibility includes creating the right 'tone' regarding business conduct, as well as the establishment of an effective system of internal control.

Q2a.2 - Mixed response about specific area, or more evidence needed\Q2a.2 - Mixed response - 08 Internal controls

4. Accounting Firms

KPMG

Requirements for auditors to evaluate and report on the entity's processes and controls to prevent and detect fraud

We are supportive of this proposal, noting that, based on longstanding experience in this area in certain jurisdictions, such requirements are premised on the establishment of similar formal requirements regarding management's responsibilities to perform procedures and themselves report in this area, which introduces more rigour in itself.

In supporting this solution, we also highlight that it is closely aligned to the current concept of an audit and to auditors' professional skills and expertise.

We also believe that this solution is capable of development as a scalable solution and in this regard we recommend that any new requirements be established only for listed entities/PIEs, noting that such entities usually have a more formalised system of internal control that is capable of being subject to a specific assurance engagement.

However, as we note earlier, we would be concerned with changes to auditor's responsibilities in this area in the absence of equivalent changes to responsibilities of management/ those charged with governance, as such asymmetry would place responsibilities on an entity only indirectly using auditors as the mechanism to effect such changes. This would be challenging for auditors to achieve and such an imbalance of responsibilities may render it less effective as a solution if other parties are not considered to be properly accountable in this area.

Please refer to our response to Question 4, in which we note that for several of these solutions to be effected, bodies, including financial reporting standard setters, as well as regulators, will need to work together.

We also highlight that such an approach may widen the expectation gap or give rise to confusion to the users of the audit report, firstly, in the event that an auditor were to identify and report deficiencies in an entity's internal controls, whilst at the same time issuing a 'clean' audit opinion, because the auditor may be able to obtain sufficient appropriate audit evidence that the financial statements are not materially misstated even when a control deficiency is present. To help address this concern, we recommend that this be performed either as an integrated audit with separate reporting over the system of internal control in relation to financial reporting (including fraud) by the auditor, or as a separate assurance engagement performed in accordance with the ISAE 3000 (Revised) suite of standards. Secondly, as we highlight earlier, given the nature of frauds, which may be perpetrated by senior management, with the ability to override systems and controls, such systems, and assurance over them, will not necessarily prevent or detect fraud.

In terms of the scope of such an engagement, we have concerns if a fragmented approach is envisaged, targeted only at an entity's anti-fraud processes and controls. Instead we believe that this solution, if pursued, would best be focused on the internal control system holistically, although we note that this

approach likely would result in significant incremental cost both in respect of entity compliance as well as auditor assurance, at least initially, with benefits such as reduced cost of capital being realised later. Accordingly, we recommend detailed outreach to stakeholder groups including investors to help ensure they understand the costs/ benefits of such an approach and are able to take an active part in determining whether this solution would meet their needs.

If this approach is pursued, it is critical that a suitable framework against which to evaluate an entity's processes and controls is developed, similar to the COSO Framework that is used in an audit of Internal Control Over Financial Reporting (ICOFR), with emphasis on the appropriate involvement/oversight of those charged with governance as a critical and integral feature of the system of internal control. Other aspects of the framework should address business culture/ tone as well as matters such as whistle blower programs. Such a framework would need to be capable of reasonably consistent implementation on a global basis to ensure consistency and comparability of entities across jurisdictions.

We consider that the core principle applicable in other areas of corporate reporting that 'management goes first' should also be applied in this situation, i.e. management/ those charged with governance of an entity should be required by regulators to describe their approach to fraud identification and their response e.g. in the front section of the annual report, with auditors performing an integrated audit with separate reporting over internal control in relation to financial reporting, including in respect of fraud, or performing assurance in accordance with ISAE 3000 (Revised) over this information.

PricewaterhouseCoopers (PWC)

Internal control relevant to financial reporting

As described in our response to question 1(b), the importance of management having appropriate responsibilities for the identification and management of risks of fraud cannot be underestimated. Creating a stronger framework of responsibility and reporting in respect of an entity's system of internal control could help improve the prevention and detection of fraud. There is an opportunity to evolve the audit scope beyond today's model.

For example, we would support the introduction of a framework of responsibility and reporting in respect of an entity's internal control relevant to financial reporting, including fraud-related controls. At the heart of such a framework would be a clear public statement by management/those charged with governance as to the design and operating effectiveness of the entity's internal controls, which would be underpinned by:

A clearly communicated expectation of the level of rigour and diligence to be applied in making that statement; and

An accountability mechanism with consequences for management/those charged with governance in the event of non-compliance.

Consideration can then be given to a requirement for the auditor to make a corresponding attestation on internal control.

In designing and implementing any such regime, there would be a number of key decision points, including the proportionality of the cost/benefit of introducing such a regime, the entities to which the requirements would apply, and the internal controls brought into scope. As noted, this is an area where the IAASB could usefully engage with IOSCO, national standard setters and others with responsibility for establishing or strengthening such requirements in their respective jurisdictions.

The proportionality and scalability of any changes proposed in this area are important factors that the Board will need to consider, recognising that an entity's system of internal control may be less formal and less mature in smaller and less complex entities.

Q2a.3 - No\Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 01 Any change that might lessen requirements for the auditor

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

We would not support any proposals that would lessen the expectations or requirements for the auditor in the areas of fraud and going concern in an audit of financial statements.

Q2a.3 - No\Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 02 Engagement quality review procedures

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

The requirements for the EQCR to perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached, should be sufficient to cover issues relating to fraud without needing to introduce requirements for specific EQCR procedures focussed on fraud. Keeping these requirements at a principles level, and avoiding specification of particular causes of risks to consider, helps avoid the possibility of an unbalanced review that does not give sufficient attention to risks that have not been specifically identified in the requirements.

Independent Regulatory Board for Auditors (IRBA)

Additional engagement quality control review procedures

The IAASB is interested in perspectives on whether additional engagement quality control review procedures, specifically focused on the engagement team's responsibilities relating to fraud, should be considered for audits of financial statements of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

We agree with the statement that "a material misstatement arising from fraud would likely be considered a significant matter or an area requiring significant judgement", and that it therefore already falls within the scope of the engagement quality control review.

In addition, we note that the "new requirements", as proposed by the "new" Japanese fraud standard, are already incorporated in the new ISQM 2.A29 (which speaks to the timing of the procedures performed by the engagement quality reviewer) and ISQM 2.24(b) (which includes a requirement, to be incorporated into firm policy, that specifically precludes the engagement partner from dating the engagement report until the engagement quality review is complete).

We also reiterate ISQM 2.9: "The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner for managing and achieving quality on the engagement, or for the direction and supervision of the members of the engagement team and the review of their work."

This paragraph emphasises that the engagement quality reviewer does not change the responsibilities of the engagement partner. Ultimately, it is the engagement partner's responsibility to ensure fraud risks are appropriately identified and responded to by the engagement team. We note that there is no explicit requirement to this extent in either ISA 220 or ISA 240. We believe the role of the engagement partner in this regard should therefore be enhanced, as opposed to requiring the engagement quality reviewer to do more, given the engagement quality reviewer's responsibility to remain objective.

If the risks are identified by the team, the implicit requirements in ISQM 2 are sufficient to ensure that the matter also undergoes an appropriate engagement quality review.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Overall the AUASB do not support additional engagement quality control review procedures for EQR's in relation to fraud, as it was felt that the recently revised ISQM 2 Engagement Quality Reviews standard has adequate procedures and guidance in this area.

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

We do not believe that additional engagement quality control review procedures or engagement quality review procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review or engagement quality review ought to be required, because the purpose of both engagement quality control reviews and engagement quality reviews are directed towards an objective evaluation of the significant judgments made by the engagement team in reaching its conclusions to form the audit opinion. This automatically includes any significant judgments related to the procedures undertaken to identify and assess the risks of material misstatement due to fraud, to detect fraudulent financial reporting or the misappropriation of assets, and how the engagement team dealt with detected fraudulent financial reporting or misappropriation of assets. There is therefore no reason to add additional engagement quality control review or engagement quality review procedures.

Korean Institute of Certified Public Accountants (KICPA)

The IAASB is interested in perspectives on whether additional engagement quality control review procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

(KICPA Comment) When conducting quality control review, it would be unnecessary to deal with explicit procedures. Review as to whether audit procedures on frauds are appropriately performed, as described in the extant auditing standards, is the basic of quality control review, which means that the additional description of explicit procedures do not necessarily result in the improvements of audit quality in relation with frauds.

If specified examples of possible frauds are described, they could be taken into account, when considered necessary, in conducting quality control review to enable the control of audit failures arising from frauds. The description of explicit procedures could mean that procedures required to the engagement team contain

more clarity, thereby being able to narrow the performance gap. In addition, with above requirements on auditors, the requirements on an entity related to frauds need to be reinforced.

4. Accounting Firms

CohnReznick (CR)

We do not believe additional engagement quality control review (EQCR) procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered for audits of financial statements of listed entities, and those other engagements, for which an EQCR is required by a firm. We believe the current EQCR requirements are appropriate as is and caution the IAASB that being overly prescriptive in EQCR requirements could perpetuate a "checklist mentality" among EQCRs and thus erode audit quality, which would not be in the public interest.

Mazars USA (MAZUSA)

Response: The recently issued standards, International Standard on Quality Management 2, Engagement Quality Reviews addresses the completion of an effective engagement quality control review, including the considerations related to fraud and ISA 220 (Revised) Quality Management for an Audit of Financial Statements will serve to increase audit quality overall, and as written will allow the engagement quality control reviewer to focus on areas of risk within the audit. We do not believe that additional procedures are necessary.

MHA Macintyre Hudson (MHA)

An engagement quality review is an appropriate response to assessed quality risks. Under ISQC1 (or indeed ISQM1) requirements, we do not believe there is a need for additional procedures or enhancements for EQCR involvement when fraud is identified. We believe that the Engagement Partner (or the firm) may determine that fraud is a high risk and that an EQCR is an appropriate response to that risk under existing standards. However, the focus of the EQCR is on quality risk as opposed to the fraud risk, and a different approach (e.g. second partner, or technical, review) may be more appropriate depending on circumstances.

SRA

20. We do not support extension of the existing requirements regarding quality control procedures.

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

No additional engagement quality control review procedures are considered necessary as the current procedures already place sufficient focus on the discussion of significant matters and review of significant judgements, which in our view would include the assessment of and response to fraud risk at the auditee.

Australasian Council of Auditors General (ACAG)

Current coverage for EQCR around key judgements, of which fraud may be a matter in audit planning, is sufficient as the EQCR is already involved in work around significant risk and judgements in the audit

New Zealand Auditor General (NZAG)

The IAASB has sought views on whether additional quality control review procedures specifically focused on the engagement team's responsibilities relating to fraud should be considered for audits of financial statements.

Our initial reaction is that such additional quality control review procedures may not be a particularly effective measure to narrow the expectation gap in relation to fraud. These procedures may confirm that the audit team has complied with the ISAs, but that is a compliance related measure. A stronger measure is to instil an awareness of the possibility of fraud at the outset of an audit through careful planning and by ensuring all members of the audit team remain aware of the possibility of fraud throughout the conduct of the audit.

6. Member Bodies and Other Professional Organizations

CPA Australia (CPAA)

We consider that the engagement quality control review will already consider whether the auditor has met the requirements of the standards so there should be no need for further requirements for the EQCR specifically on fraud, beyond those already reflected in the ISAs.

Q2a.3 - No\Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 03 Forensic specialists

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Stakeholders agreed that bringing fraud specialists in as part of the engagement team fraud discussion to assist with identifying risk assessment and understanding the entity and the possible fraud schemes that could be perpetrated may be useful. However most agreed that upskilling auditors in forensic techniques is a better option and the engagement of forensic experts should only be considered necessary when issues of fraud are identified.

The IAASB is interested in perspectives about requiring the use of forensic specialists or other relevant specialists in a financial statement audit, and, if considered appropriate, in what circumstances the use of specialists should be required.

Overall there was not strong support by the AUASB for forensic specialists to be required to be used under ISA 240. The main reason being the cost vs benefit to the entity. It was generally agreed that the decision to use specialists, forensic or otherwise should still be a decision for the engagement partner based on the circumstances of the engagement.

New Zealand Auditing and Assurance Standards Board (NZAuASB).pdf

The NZAuASB also cautions against the auditing standards requiring further involvement of forensic specialists in an audit engagement. Any requirement to involve forensic specialists would be especially challenging for smaller practices to implement. The scope of a forensic engagement is very different to an audit. A forensic engagement is used when fraud is suspected, i.e., is a much deeper dive into a particular area. It is not appropriate for the auditor to always perform such work as this is not in the scope of an audit. That deeper dive requires a different skill set for what the auditor is engaged to do. Another significant difference is that in a forensic engagement those charged with governance share responsibility for the investigative work.

4. Accounting Firms

CohnReznick (CR)

We believe the use of specialists should not be required. The objective of the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. In order to obtain reasonable assurance, an auditor may feel it is necessary to use the work of an individual or organization in a field of expertise other than accounting or auditing. We feel the consideration of forensic specialists is already considered in ISA 620 or, in regard to a management specialist, in ISA 500. Requiring a “forensic specialist” may be problematic as the definition of a “forensic specialist” is broad and may not contribute to the auditor obtaining reasonable assurance. Instead, we believe the current construct of the ISAs is appropriate in allowing an auditor to use a forensic specialist, as appropriate, to respond to risks of material misstatement and enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.

Deloitte (DTTL).pdf

DTTL does not believe that adding a requirement for the use of a forensic specialist or a specialist to evaluate management’s plans to mitigate going concern issues is appropriate, as this is not a risk-based approach, and involvement of a specialist is not necessary on every audit. It is also important to note that, in the current state, it may not be feasible to fulfill a requirement to include such types of specialists on every audit due to lack of available resources with the necessary training and certification. A consideration for colleges and universities is to add courses to their curriculum in these specialized areas and include related elements to the minimum requirements for professional certification of auditors.

PricewaterhouseCoopers (PWC)

We do not support mandating involvement of forensic specialists, as such a requirement risks making specialist involvement perfunctory and less effective over time. It may not have a discernible impact on audit quality on engagements where there are no identified significant fraud risk indicators, bringing the cost/benefit into doubt.

Whether, and the extent to which, it is considered appropriate to involve specialists in identifying, assessing, and helping design an appropriate audit response to, fraud risks is a matter of professional judgement made in the context of the engagement circumstances. If involvement is deemed appropriate, this can range from limited advice in response to specific questions, to more significant and direct involvement in risk assessment and development of the response to assessed risks. When deciding to involve forensic specialists, they can be engaged in different ways and their role will vary depending on whether they are consulting, coaching, or actively assisting in an execution role.

Application material to ISA 240 could describe this spectrum of involvement and provide illustrative examples of relevant factors that an engagement team could consider in determining whether involvement of specialists may be appropriate in the circumstances. For example, if one or more heightened fraud risk factors or indicators of fraud are identified, the use of a specialist can enhance the engagement team’s understanding of how the risk factors or other indicators are likely to manifest (i.e., fraud schemes) and/or help in developing an effective audit response to these circumstances.

Time, cost and scalability are also important considerations, under the overall context of judging whether involvement of specialists will enhance quality on the audit engagement.

It is important that the involvement of forensic specialists is clearly understood in the context of the scope of an audit. The expectation gap may widen if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work. There is a clear distinction between use of specialists in an audit support capacity and the nature, timing and extent of work that a specialist performs in a forensic investigation. In the latter capacity, forensic specialists carry out an investigation of allegations or suspected fraud to determine the facts and, as appropriate, to support the entity in remedial and recovery actions. Whatever the precise objectives, these go beyond assisting the audit team within the terms of the financial statement audit, and beyond the scope of work expected in an audit.

SRA

We do not agree with the inclusion in the auditing standards of a requirement to include forensic specialists in the audit team, especially in a non-public interest environment. Adequate training in fraud awareness and relevant auditing standards should secure, that fraud aspects are adequately covered in these audits.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAGC)

We do not believe it is necessary to involve a forensic specialist in fraud inquiry procedures as suggested in the discussion paper, regardless of entity type. Engagement teams should consult outside the engagement team as appropriate when it is determined to be necessary.

6. Member Bodies and Other Professional Organizations

CPA Australia (CPAA)

Whilst there is much to be learnt from the experiences of forensic accountants and others engaged in investigating suspected or detected fraud, we do not support mandatory inclusion of such specialists in audit teams. Such specialists do have a place in raising awareness of fraud risks and sharing the modus operandi of fraudsters with auditors. However, usually the forensic accountant is engaged when a fraud is suspected or identified, and so they are tasked with determining whether a fraud has been perpetrated, determining the extent of the fraud, finding and preserving the evidence in a manner admissible in court, which is typically very targeted and involves intensive scrutiny. Whilst there are parallels, they are different disciplines with different scopes and parameters. As with the engagement of other experts, it should be left to the engagement partner's discretion as to when and whether a forensic accountant's expertise is required on any particular engagement.

European Audit Committee Leadership Network (EACLN)

Auditors and clients would benefit from forensics training, but forensic auditing for fraud is rarely needed

Many audit chairs endorsed requiring forensics training for auditors. One chair observed that additional training could sharpen their auditor's focus on red flags: "Training might make them more aware of what's happening rather than suspicious about everything." Another chair agreed, calling forensics "part of the work of getting the audit done but, due to the power of automation, not much additional work." One believed that forensics training would be a necessary accompaniment to a suspicious mindset: "You can't have a suspicious mindset and not know what to do or not have the tools. Giving the external auditor responsibility but not mandating capabilities would be inconsistent."

Audit chairs were less convinced that forensic specialists should be part of most audit teams. A primary reason is that forensics accounting is retrospective and largely unrelated to preventing future fraud or detecting ongoing fraud. “Forensic specialists come in after the event has occurred; they can’t tell you what is going to go wrong before it does. They are no more capable of detecting fraud than anyone else,” one audit chair said. Another agreed that the state of assurance practice is not geared to involving forensic specialists on every audit team: “You only want to use forensic specialists if there’s already an indication of an issue—not as part of normal practice.” Another audit chair considered forensics a “special skill” that should not be expected of auditors but added that “if questions are raised, the auditors should have access to those specialists.”

One audit chair had a far more positive view on forensic skills in audit firms, especially in regulatory regimes that are driving separation between assurance and consulting services. “Forensic accounting is an opportunity for the firms to broaden their skill bases, to embed different ways of working and thinking. They will not only be more relevant to their clients but also more attractive to young talent.”

Current audit standards seem to strike the right balance, but enhancements to recognize advancements in the use of data analytics would be appropriate. External auditors are already doing most of what can feasibly be done to prevent and detect fraud. While improvement is always possible and standards should evolve – to recommend, for example, expanded use of data analytics and forensics – fundamental changes in approaches and procedures (such as adopting a “suspicious mindset”) are not necessary today.

Perspectives on management’s responsibilities

European audit chairs said that primary responsibility for fraud detection and prevention rests with management and internal audit teams. The European audit chairs were reluctant to increase the external auditor’s fraud detection and prevention responsibilities.

Perspectives on the responsibilities of the external auditor

While European audit chairs saw opportunities to adjust the function of the external auditor in detecting and preventing fraud, most did not endorse large-scale role redefinitions.

Response: No. While the audit chairs we interviewed saw opportunities to adjust the function of the external auditor in detecting and preventing fraud, most did not endorse large-scale role redefinition, and they were not inclined to increase the auditor’s burden or expand its role in fraud detection and prevention through enhanced requirements.

Several audit chairs noted that external auditors already play an adequate and appropriately limited role in preventing and detecting fraud within the confines of their assurance responsibilities. “The auditors do a lot for my companies. They start with key risks. But there is a finite number of accounting standards, and only a subset of those creates risks.” one audit chair observed. Another said, “Auditors review the processes management has in place to detect fraud. They always assess internal controls for the management letter. There are many opportunities to find gaps in the system. I’m not sure what advantage more thoroughness would provide.” The auditor is invaluable in providing the audit committee with independent perspectives on transactions and balances, one member added, and others noted that the external auditor can provide valuable perspective to the audit committee on the company’s culture.

Others questioned the value of broadening external audit’s scope and saw the potential for it to detract from the auditor’s other work. “Expanding the auditor’s scope with respect to detecting and preventing fraud would increase work and fees without delivering proportional value,” one audit chair said. Another noted, “I struggle to imagine what more the auditors could do. Reduce materiality to naught? If the CEO and CFO are

colluding, the external auditor would struggle to uncover that as much as anyone.” Another, asserting that fraud detection is better addressed by internal audit, said, “Fraud risk should not be viewed differently from other enterprise risks. The external auditor is not the main tool for working with that. If the external auditor looks more into this, it will devalue its work in other important specialties, of which they have many.”

Nonetheless, some European audit chairs noted that external auditors could do more to prevent and detect fraud. “The auditor should do more ... Fraud is one of the most detrimental things for companies, and sometimes the external auditor did not see it. We should put a higher level of responsibility on them, and the results should be tested,” one audit chair said.

An audit chair observed that the external auditor has a wide range of assurance expertise, such as in cybersecurity, compliance, and internal controls, and said that there is no reason not to leverage that expertise for the purpose of fraud detection. Another audit chair noted that external auditors currently have tools, such data analytics and artificial intelligence, which help them detect fraud, but that “they could do much more.”

Many audit chairs were reluctant to endorse requiring the external auditor to assume liability for fraud detection and prevention. One referred to liability as “the elephant in the room that affects a lot of stakeholders’ responses to these proposals.” Another audit chair was concerned that imposing liability on external auditors could threaten their existence: “There aren’t many big audit firms out there, and we can’t lose any of them.”

The external auditor provides an adequate and appropriately limited role in preventing and detecting fraud

Most European audit chairs were not inclined to increase the auditor’s existing role in fraud detection and prevention. Several noted that external auditors already play a role in preventing and detecting fraud within the confines of their assurance responsibilities. “The auditors do a lot for my companies. They start with key risks. But there is a finite number of accounting standards, and only a subset of those creates risks,” one audit chair observed. Another said, “Auditors review the processes management has in place to detect fraud. They always assess internal controls for the management letter. There are many opportunities to find gaps in the system. I’m not sure what advantage more thoroughness would provide.” The auditor is invaluable in providing the audit committee with independent perspectives on transactions and balances, one member added, and others noted that the external auditor can provide valuable perspective to the audit committee on the company’s culture.

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Yet there may be room for external auditors to do more

Despite general agreement against large-scale expansion of external audit’s role, some European audit chairs said that external auditors can and should do more to prevent and detect fraud. One said, “The auditor should do more ... Fraud is one of the most detrimental things for companies, and sometimes the

external auditor did not see it. We should put a higher level of responsibility on them, and the results should be tested.”

An audit chair observed that the external auditor has a wide range of assurance expertise, such as in cybersecurity, compliance, and internal controls, and said that there is no reason not to leverage that expertise for the purposes of fraud detection and prevention. Another audit chair noted that external auditors currently have tools, such as data analytics and artificial intelligence, which help them detect fraud, but that “they could do much more.”

Many audit chairs were reluctant to endorse requiring the external auditor to assume liability for fraud detection and prevention. One referred to liability as “the elephant in the room that affects a lot of stakeholders’ responses to these proposals.” Another audit chair was concerned that imposing liability on external auditors could threaten their existence: “There aren’t many big audit firms out there, and we can’t lose any of them.”

Institute of Chartered Accountants in England and Wales (ICAEW)

Forensic experts: we are concerned by the suggestion that forensic experts should always be used as part of the fraud enquiry process.

An audit manager within the firm who has been on a three-day online course should not be classified as a forensic expert. The number of fully qualified forensic experts available to auditors is small. In many jurisdictions forensic experts simply do not exist. We understand that some firms are beginning to use forensic experts at the planning stage of the audit, but most of those we consulted believe that the use of forensic experts would be unlikely to significantly alter the risk of undetected management fraud. Generally speaking, forensic experts may help deal with fraud or suspected fraud once auditors have found them, but to date they have not helped auditors find them.

Typically, forensic experts are brought into the largest of financial statement audits when management has already identified a fraud and is pursuing its own investigations. Their approach is not risk based, they have little in the way of materiality considerations, and they have considerably more time and more generous budgets than financial statement auditors. The IAASB should not inappropriately raise expectations in this area. Involvement in all audits could increase the expectation gap or make their involvement perfunctory.

Kriton (KNL)

In the Netherlands, the capacity of forensic expertise is limited and concentrated at a relatively limited number of (audit) firms. With mandatory use of forensic expertise, demand is likely to exceed supply many times over. Retraining auditors to become a forensic expert is not a feasible solution. The required investment in knowledge and experience (‘flying hours’) is too great.

We believe that audit firms - as part of the quality control system - should themselves determine what level of expertise is required for a particular set of circumstances (for example, simple, difficult, complex). Sometimes, the use of a forensic expert is desirable, but it is often sufficient for the audit firm to have persons with sufficient knowledge and experience to pay increased attention to fraud risk factors, fraud risks and indications of fraud during the audit. These persons are also able to initially take the lead if specific, forensic expertise is necessary. They are referred to as ‘fraud experts’ and we propose that the training, availability and deployment of fraud experts should be explicitly included in the quality control system.

Malaysian Institute of Certified Public Accountants (MICPA)

Use of forensic specialist or other relevant specialist (such as data analytics specialist) on audits

We do not support the mandating of the use of forensic specialists on audits. The involvement of forensic specialists in the audit needs to have the proper context. The expectation gap may in fact widen if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work. There is a clear distinction between the use of specialists in an audit support capacity than that of a specialist performing a forensic investigation. We are of the view that forensic specialists, like any other experts, should only be called upon if there are clear fraud risk indicators as opposed to a blanket mandate of their involvement.

Wirtschaftsprüferkammer (WPK)

We do not believe, that enhanced ISA requirements for planning and performing audits will avoid corporate failures in the future. Implementing additional audit requirements into the ISAs, especially requirements that may alter the character of the audit like mandatory forensic procedures, should only be made if a respective law or regulation requires to do so.

Unfortunately, we do not have information about how many attempted frauds have been avoided or how many committed frauds have been detected in the normal course of the audit. But we do know that the vast majority of audits – in Germany approximately 40,000 per year – is properly performed. Additionally, even in individual corporate failures due to fraud, we believe that deficiencies in the conduct of the audit with regard to fraud are not the result of insufficient audit requirements but rather the result of inadequate use of the audit standards. Accordingly, we do not see the need for enhanced or more audit requirements with regard to fraud.

At this point we would like to emphasize, that the primary responsibility for preventing and detecting fraud lies with management as overseen by those charged with governance. Management needs to establish internal controls as part of the corporate governance structure and those charged with governance (e.g. supervisory board) are responsible for overseeing this. Enforcing corporate governance should be the starting point and the driver for any measures addressing fraud prevention. This requires a joint effort by all relevant parties, including those charged with governance, management, auditors, regulators and standard-setters.

Sensitizing the profession for specific fraud related issues (e.g. by corresponding training requirements) seems reasonable in order to create awareness and to foster professional scepticism. Whereas, we consider the use of forensic specialist in the normal course of the audit as problematic. The performance of “some random forensic procedures” during the audit does not avoid highly sophisticated fraud. Instead we see the risk that the expectation gap might even widen. A comprehensive forensic audit support on the other hand alters the character of the audit as we currently know it and must therefore only be implemented by policymakers.

In this context it is worth to mention, that investors, shareholders and certain other stakeholders are always free to request the management of the audited company to engage external parties to perform forensic investigations – separate from the audit and therefore separately paid for. We are not aware of any company exercising this option without cause.

Q2a.3 - No\Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 04 Non-material fraud

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Identified fraud that does not result in a material misstatement of the financial statements

We believe that the procedures required by extant ISA 240 regarding non-material fraud (including communication to management and TCWG and the follow up of remediation and the action plan) should be maintained. In particular, ISA 240 requires auditors to consider, in their audit procedures, all frauds and suspected fraud, whether material or not, as they may be indicative of a failure in internal control or governance. As such, identification of fraud (or suspicion thereof) will feed into the auditor's assessment of risks and adaptation of the level of audit work accordingly.

Irish Auditing and Accounting Supervisory Authority (IAASA).pdf

Identified fraud that does not result in a material misstatement of the financial statements

We believe that the procedures required by extant ISA 240 regarding non-material fraud (including communication to management and TCWG and the follow up of remediation and the action plan) should be maintained. In particular, ISA 240 requires auditors to consider, in their audit procedures, all frauds and suspected fraud, whether material or not, as they may be indicative of a failure in internal control or governance. As such, identification of fraud (or suspicion thereof) will feed into the auditor's assessment of risks and adaptation of the level of audit work accordingly.

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

The AUASB do not consider additional procedures relating to the auditor's responsibilities to identify and address non-material fraud are necessary. Some of our stakeholders considered there could be better guidance for auditors on how to deal with the cumulative impact of non-material fraud across multiple years (i.e. the impact in each year might not be material, while the cumulative total could be material), and the need to consider non-material fraud when evaluating internal controls at an entity that may be systematic, but there was no call to extend the auditor's existing responsibilities to include more relating to non-material fraud in ISA 240 or other auditing standards.

Canadian Auditing and Assurance Standards Board (AASB)

Additional Focus on Non-material Fraud

What our stakeholders told us

Stakeholders reinforced that preventing, detecting, and investigating fraud is the responsibility of the entity. The extant requirement for the auditor to evaluate all misstatements identified during the audit for whether there is any indication of fraud continues to be appropriate and sufficient. Stakeholders pointed out that it would not be appropriate to expect the auditor to conduct audit procedures to identify non-material fraud since this does not align with the objective of the audit.

AASB views and recommendation

We support the requirements in paragraphs 36 and 37 of ISA 240. Under these requirements, an auditor is required to evaluate whether identified misstatements are indicative of fraud; and when misstatements are identified, whether material or not, to reevaluate the assessment of the risks of material misstatement due to fraud and the resulting impact on the nature, timing and extent of audit procedures. We do not support

additional focus on the auditor identifying non-material fraud during the audit because we believe paragraphs 36 and 37 are sufficient to guide auditors in assessing identified misstatements for fraud.

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

In line with our comments in the body of the letter, we note that the objective of an audit is to form an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the financial reporting framework. Consequently, in line with those comments, the required scope of an ISA audit cannot be extended to the detection of non-material frauds. Furthermore, due to the inherent limitations of an audit as described in our response to Question 1 (a) on the reasonableness gap, it simply is not possible for an audit to identify all non-material frauds, even with unlimited time and resources (an employee absconding with a paperclip is, strictly speaking, misappropriation of assets) – this is a matter that needs to be dealt with as part of the reasonableness gap. The resources and time needed to seek to detect immaterial frauds (and even then due to the inherent limitations of audits, not all of them would be found) would make audits prohibitively expensive and would cause them to be completed at a time at which the results of the audit would no longer be relevant to users. We would also like to point out that extending the scope of the audit to detect non-material frauds without a concomitant requirement for management and those charged with governance to prevent and detect such frauds would cause the responsibilities of auditors to exceed that of management and those charged with governance, who design and implement, or oversee the design and implementation, of controls to prevent and detect fraud – but the cost of controls to seek to have an entity prevent detect all non-material frauds would vastly exceed the benefits.

We believe that the current requirements in paragraphs 36 and 37 of ISA 240 for non-material frauds are appropriate and need not be augmented.

In line with our comments in the body of the letter, we note that the objective of an audit is to form an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the financial reporting framework. Consequently, in line with those comments, the required scope of an ISA audit cannot be extended to the detection of non-material frauds. Furthermore, due to the inherent limitations of an audit as described in our response to Question 1 (a) on the reasonableness gap, it simply is not possible for an audit to identify all non-material frauds, even with unlimited time and resources (an employee absconding with a paperclip is, strictly speaking, misappropriation of assets) – this is a matter that needs to be dealt with as part of the reasonableness gap. The resources and time needed to seek to detect immaterial frauds (and even then due to the inherent limitations of audits, not all of them would be found) would make audits prohibitively expensive and would cause them to be completed at a time at which the results of the audit would no longer be relevant to users. We would also like to point out that extending the scope of the audit to detect non-material frauds without a concomitant requirement for management and those charged with governance to prevent and detect such frauds would cause the responsibilities of auditors to exceed that of management and those charged with governance, who design and implement, or oversee the design and implementation, of controls to prevent and detect fraud – but the cost of controls to seek to have an entity prevent detect all non-material frauds would vastly exceed the benefits.

We believe that the current requirements in paragraphs 36 and 37 of ISA 240 for non-material frauds are appropriate and need not be augmented.

4. Accounting Firms

CohnReznick (CR)

We believe the objective of an audit should remain to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. We have concerns that if an auditor expends disproportionate audit effort on non-material frauds and related procedures, that the risk of a material misstatement in the financial statements not being detected, such as by error, or a different and more material fraud, may increase. Such would not be in the public interest. We believe the current construct of ISA 240 is appropriate overall, for risk identification related to fraud.

[Deloitte \(DTTL\).pdf](#)

Existing ISA requirements on fraud

The current auditing standards appropriately state that the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements due to fraud, and their principles-based nature enables the auditor to apply professional judgment in evaluating an entity's facts and circumstances to assess risks and design appropriate audit procedures to address the risk of fraud. This focus on applying a risk-based approach to responses (which requires the performance of additional procedures to respond to increased risk) is a fundamental premise of the auditing standards which should not be lost by the addition of "bolt-on" requirements that are not rooted in the risk assessment process.

Additionally, it is appropriate for the auditing standards to retain a focus on quantitatively and/or qualitatively material fraud. While the concept of materiality may play into the expectation gap (as users may assume that it is the auditor's responsibility to detect any and all instances of fraud), immaterial frauds are not the primary issue facing the profession. Rather the primary issue relates to not identifying frauds that either lead to a material misstatement when they exist or indicate intentional management bias to manipulate the financial statements to a specific goal, and this should remain the focus of standard setters and the auditors' obligations. It is important to note that the auditing standards already include the following requirements related to the identification of immaterial fraud:

Evaluate whether any misstatement identified is indicative of fraud.

If the auditor has reason to believe any misstatement is or may be indicative of fraud:

Evaluate the implications to other aspects of the audit, particularly the reliability of management representations.

Reevaluate the assessment of risks of material misstatement due to fraud and its resulting impact on the nature, timing, and extent of audit procedures to respond to the assessed risk.

Consider whether circumstances or conditions indicate possible collusion involving employees, management, or third parties when reconsidering the reliability of evidence previously obtained.

Communicate to TCWG in a timely manner any fraud the auditor has identified, or suspects, when that fraud is committed by management, employees who have significant roles in internal controls, and others where the fraud results in a material misstatement to the financial statements.

If fraud is identified at the entity, management and TCWG should perform a thorough investigation (internal and/or external, as appropriate, based on the facts and circumstances), discipline those involved and/or report them to legal authorities, and remediate internal processes and controls to enhance the prevention of fraud. As described in the current auditing standards, the auditor's role is to evaluate the effect of the fraud (including non-material fraud) on the financial statements and consider the broader impact on the audit, especially the re-assessment of risks of material misstatement, the adequacy of scope and procedures

performed, and the evaluation of the reliability of evidence obtained. This rationale also relates to the auditor's consideration of third-party fraud—the focus of the auditor should be the effect on the financial statements, and not extend beyond that.

The current scope of an audit is appropriately focused on identifying material misstatements in the financial statements.

DTTL recommends that the IAASB not broaden the audit to require procedures related to immaterial matters (for example, designing procedures to detect quantitatively immaterial fraud) or matters that do not impact the financial statements.

GTI

Responsibilities and additional procedures in relation to non-material fraud

Responsibilities for the prevention and detection of fraud lie primarily with management and those charged with governance. Management and those charged with governance have the responsibility to create an appropriate control environment and to put in place appropriate controls that minimise the opportunity for fraud to be perpetrated and to detect fraud in circumstances where it does occur.

The auditor's responsibilities lie in the detection of material misstatement due to fraud, which is inherently more difficult than detecting error, especially where collusion is involved. Where the risk of material misstatement due to fraud arises from collusion amongst senior management, it is likely that the remedy lies with those who develop laws and regulations addressing fraud. Creating a requirement for auditors to identify non-material fraud in general is too onerous and the benefits of doing so would outweigh the costs, which we believe is not in the public interest.

KPMG

Focus on non-material fraud

The ISAs establish a number of requirements in this area, including requiring the auditor to evaluate whether identified misstatements are indicative of fraud and assess the impact on other aspects of the audit, particularly management representations. The Board questions whether these responsibilities should be expanded or enhanced, noting that non-material frauds are becoming more prevalent, and may be indicative of broader concerns regarding an entity, to require a wider focus by the auditor on fraud.

We do not believe the auditor's responsibilities need to be expanded, but we suggest that the IAASB consider enhancing the current material in the ISAs regarding the auditor's responsibilities when non-material fraud is identified (whether by the entity or the auditor) in terms of evaluating the implications on the audit as a whole. For example, greater emphasis could be given to understanding the actions taken by management in response to the identification of fraud, and evaluating the implications this understanding may have on risk assessment; the auditor's understanding of the entity's internal control; the reliability of audit evidence, and how we exercise professional scepticism.

We also suggest that the IAASB consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors, with examples, linked to ISA 320.10, that this is factored in when determining materiality for the financial statements as a whole, and for particular classes of transactions, account balances or disclosures, i.e. there is no 'separate' materiality threshold in respect of fraud.

PricewaterhouseCoopers (PWC)

The perceived responsibilities of the auditor regarding non-material fraud, what additional procedures, if any, may be appropriate, and whether additional audit procedures should be required when a non-material fraud is identified

As ISA 240 already explains, there are inherent limitations on the ability of the auditor to design an audit to detect material misstatements resulting from fraud. Seeking to detect non-material misstatements arising from fraudulent activity is inconsistent with the scope and objectives of the audit. Time and cost barriers make this impracticable. No proportionate audit requirements can eliminate the risk of fraud. Implementing a requirement to identify and respond to risks of non-material fraud (i.e., fraud that does not result in a material misstatement of the financial statements) would be costly and likely increase the expectation gap, as the risks of fraud occurring and not being detected cannot be eliminated. Accordingly, we are not supportive of expanding the scope of the auditor's responsibilities beyond the identification, assessment and response to risks of material misstatement of the financial statements due to fraud.

The inquiries required by ISA 240 of management, internal audit, and those charged with governance could identify non-material fraud, and greater emphasis could be given in application material on how the results of those inquiries may affect the auditor's risk assessment. For example, when potential non-material fraud has been identified through management's processes and controls, understanding how management has investigated and evaluated the matter, including any discussion with those charged with governance, would assist the engagement team in their re-assessment of risk and other evaluations made as part of the audit. This includes understanding the view of management and those charged with governance as to whether the matter is a stand-alone event or indicative of a more structural fraud scheme.

The focus on internal control relevant to financial reporting we describe in the earlier section of this response can also inform the auditor's risk assessment, and help the auditor to form a view as to whether non-material fraud may be indicative of a more significant or pervasive risk. From a perspective of avoiding potential contributors to the expectation gap, we also suggest that the term "non-material" fraud could itself be subject to different interpretations. In that regard, clearly explaining that this means fraud that quantitatively or qualitatively does not cause a material misstatement of the financial statements, would be helpful.

5. Public Sector Organizations

Auditor General of South Africa (AGSA)

The auditor should not have any specific responsibility with regards to non-material fraud to guard against the unintended consequence of making the auditor responsible for the identification of all fraud.

6. Member Bodies and Other Professional Organizations

Center for Audit Quality (CAQ)

In our view, expanding the scope of the audit to require procedures designed to detect non-material fraud could be costly without commensurate benefit and could serve to widen the expectation gap.

Chartered Accountants Australia and NZ and ACCA - Joint (CAANZ-ACCA)

According to the feedback received the majority of stakeholders consider that the current requirements are still sufficient and appropriate when either material or non-material fraud is identified. Some practitioners

emphasised that performing procedures for non-material fraud will only lead to widening the expectation gap. We do note that some stakeholders other than audit practitioners, did support additional audit procedures when a non-material fraud is identified. We consider that given the knowledge gap that currently exists regarding the extant requirements, the current standard is still sufficient and appropriate.

CPA Australia (CPAA)

We do not consider that auditors procedures should be extended to detecting non-material fraud per se, due to the likelihood that it would not pass a cost-benefit assessment. Not only are non-material frauds not easily identifiable without a significant increase in work effort and reduction in materiality thresholds, but the very nature of fraud, which can include concealment, collusion and deception, can mean it evades discovery. However, non-material fraud identified is still of interest and relevance to the auditor as it may impact their risk assessment if it is indicative of undetected fraud or systematic control weaknesses which may enable further fraud to be perpetuated and escalated in the future. Fraud which is quantitatively non-material may have qualitative impacts, such as reputational damage, loss of confidence in the entity or an undermining of corporate culture, which need to be considered. Further application material could be included in ISA 240 regarding these considerations.

Institute of Chartered Accountants in England and Wales (ICAEW)

Non-material fraud: an audit cannot be designed to detect non-material fraud and it is not a forensic audit. There is a real risk of expanding the expectation gap if stakeholders believed an audit was able to detect immaterial fraud.

Kriton (KNL)

Immaterial fraud

Due to its scope, immaterial fraud is easier to conceal and therefore less easy to detect by auditors. Investigating whether immaterial misstatements may be the result of fraud can be very intensive, which can involve high costs. We believe that holding auditors responsible for detecting immaterial fraud is disproportionate.

What may be expected of the auditor is that for any suspicion of fraud, he establishes with a reasonable degree of certainty that there can be no material misstatement as a result of the fraud. We therefore propose the following requirements:

The auditor examines whether management has sufficiently established the nature and extent of the fraud, including - as far as possible - the duration of the fraud.

The auditor determines that management has investigated whether or not it concerns an isolated event.

In accordance with ISA 260 and 265, the auditor communicates with management and those charged with governance regarding the identified immaterial fraud and related shortcomings in internal control, respectively.

The auditor assesses whether the response of management and those charged with governance to the identified fraud has been appropriate within the legal and regulatory framework.

Malaysian Institute of Certified Public Accountants (MICPA)

Auditor responsibilities for non-material fraud

We similarly do not support any actions which may be perceived to extend the auditor's responsibilities to non-material fraud.

ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements clearly recognises that there are inherent limitations on the ability of the auditor to design an audit to detect material misstatements resulting from fraud. Seeking to detect non-material misstatements arising from fraudulent activity are inconsistent with the scope and objectives of the audit. It should be recognised that no audit requirements can totally eliminate the risk of fraud. Implementing a requirement for auditors to identify and respond to risks of non-material fraud would therefore not only be costly and not practical, but in addition would most likely result in an increase in the expectation gap, as the risks of particular non-material frauds occurring and not being detected can never be eliminated as explained.

South African Institute of Chartered Accountants (SAICA)

SAICA does not believe the auditor's responsibilities need to be expanded when it comes to non-material frauds. However, the IAASB could consider enhancing the current material in the ISAs regarding the auditor's responsibilities when non-material fraud is identified (whether by the entity or the auditor) in terms of evaluating the implications on the audit as a whole. For example, greater emphasis could be given to understanding the actions taken by management in response to the identification of fraud, and evaluating the implications this understanding may have on risk assessment, the auditor's understanding of the entity's internal control, the reliability of audit evidence, and the need to exercise professional scepticism. The IAASB should also consider including enhanced guidance in respect of the term 'material' fraud, to highlight that consideration of materiality should involve qualitative as well as quantitative factors.

9. Individuals and Others

Christian Minarriz (CM)

Additional focus on non-material fraud: currently auditors are required to report to management about identified fraud, even if immaterial, and reporting to TCWG if considered to be relevant to their responsibilities (even if immaterial). The auditor is also explicitly required to consider in current ISAs that fraud may not be isolated occurrence. I think current requirements are appropriate and should not be expanded. Otherwise, the audit effort will be inefficiently wasted in misstatements that may not materially impact in the financial statements.

Q2a.3 - No\Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 05 Professional skepticism

3. National Audit Standard Setters

Australian Auditing and Assurance Standards Board (AUASB)

Stakeholders noted that requirements around application of professional scepticism, in particular when determining the nature and extent of audit evidence required appear to be increasing. The AUASB notes this point but considers the existing requirements in ISA 240 relating to professional scepticism are appropriate. We would however acknowledge and support the measures the IAASB are intending to undertake on this topic in connection with the revision of ISA 500 Audit Evidence.

4. Accounting Firms

GTI

Professional skepticism

With respect to the application of professional skepticism, both in its application in general and more specifically to fraud and going concern matters, using terms such as “enhanced professional skepticism” are not very meaningful. “Enhanced” is subject to interpretation and will not necessarily result in consistent application or even an improvement in overall quality. Moreover, it suggests that the application of just ‘regular’ professional skepticism is somehow deficient. The application of professional skepticism and professional judgment is pervasive across all aspects of the audit and will be an important aspect of the IAASB’s Audit Evidence Project. In this respect, we believe the IAASB should consider developing meaningful guidance using various scenarios of what professional skepticism is and how it is to be applied. Just adding it into more standards is not helpful or meaningful.

Q2a.3 - No Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 06 Third party fraud

2. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Auditor’s responsibility with respect to third-party fraud

The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor’s responsibilities around fraud related to third parties. We are also interested in feedback about the auditor’s role in relation to third-party fraud that does not result in a material misstatement of the financial statements, but may have a negative impact on the entity (e.g. cybercrime attacks).

As it pertains to whether “enough” emphasis is placed on the auditors’ responsibilities around fraud related to third parties, there is no emphasis on this in ISA 240. Fraud risk assessment procedures and responses are designed and executed concurrently, regardless of the source of the fraud (there is no distinction between fraud committed inside or outside the entity).

As it stands, extending audit responsibilities to “detect fraud that is not directly related to risks of material misstatement of the financial statements” goes beyond the scope of the objectives of the statutory auditor. The responsibilities of the statutory auditor should not be expanded beyond the scope of being able to opine on the financial statements, as that would be impractical.

The cost and time associated with investigating allegations and/or suspicions of fraud that relate directly to material misstatement of the financial statements are already onerous and can sometimes take a long time to resolve, and enable the auditor to opine, especially where some allegations or suspicions prove to be true.

It does not stand to reason to extend the scope of the statutory auditor beyond that of the financial statements when the purpose of the audit is to opine on the fair presentation of those financial statements.

Regardless, the auditor cannot discount third-party fraud, even if there is no immediate financial statement impact. Business risks, under extant ISA 315, need to be identified, understood and assessed, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. For example, a cyber-attack on the core business of the entity may have an impact on going concern, if it is severe enough to turn away clients.

It may then be appropriate to emphasise this in ISA 240 and/or ISA 570 for context. But we do not believe that the expansion of requirements in this regard is necessary.

In addition, we note that separate extended reporting engagements (i.e. engagements that fall outside the scope of an ISA 700 audit), to respond to shareholder needs in this regard, may be feasible in future, assuming an appropriate reporting framework can be developed.

National Association of State Boards of Accountancy (NASBA)

NASBA does not recommend expanding the scope of the financial statement audit beyond what is currently required to include audit procedures designed to detect fraud that is not directly related to risks of material misstatement (for example, to encompass reputational risks or possible cybercrime attacks). Our concern is that expanding the audit to include these procedures would widen the expectation gap. However, with the appropriate competence, we believe that an audit firm may perform such services as a separate engagement.

3. National Audit Standard Setters

Canadian Auditing and Assurance Standards Board (AASB)

Auditor's Responsibilities with Respect to Third-party Fraud

We understand third-party fraud can refer to:

fraud involving third parties that is material to the financial statements (e.g., supplier sending invoices that add up to a material amount for services not rendered);

fraud involving third parties that is not material to the financial statements (e.g., supplier sending an invoice that is not material for services not rendered); and

fraud involving third parties that does not have a direct impact on the financial statements but may have a reputational or operational risk to the entity (e.g., cyberattack to steal customer data).

What our stakeholders told us

We and our stakeholders focused on the first type of third-party fraud noted above since this is within the current scope of ISA 240. Practitioners believe the requirements of the extant standard adequately consider the risks of third-party fraud as part of the risk assessment process. Practitioners explained that while ISA 240 does not contain specific requirements related to third-party fraud, it does include third-party fraud as part of the definition of fraud, and hence it should be considered by the auditor.

Those charged with governance were the only stakeholder group that supported exploring whether additional procedures should be considered related to third-party fraud that is not currently considered in the audit (third-party fraud that is not material or that does not have a direct impact on the financial statements). They believe there is an increased risk of third-party fraud due to changes in the business environment as a result of the COVID-19 pandemic and therefore additional focus by auditors on this risk area should be required.

AASB views and recommendation

We do not believe the IAASB should explore further requirements related to the auditor's responsibilities for third-party fraud outside of that which is material to the financial statements. Primary responsibility for preventing and detecting fraud resides with management and those charged with governance. This responsibility includes safeguarding against cyber-attacks and other third-party fraud schemes.

From an auditor's perspective, the risk assessment process under ISA 315 requires the auditor to identify and assess risks of material misstatement due to error or fraud, including understanding the entity's system

of internal controls. We believe the risk assessment process is sufficient and appropriate to identify fraud risks that are to be considered in relation to the audit of the financial statements. We believe it would be inappropriate to expand the scope of the financial statement audit by requiring the auditor to consider third-party fraud that is not material or does not have a direct impact on the financial statements.

However, practitioners have expressed the need for non-authoritative guidance to clarify the auditor's responsibilities in relation to third-party fraud, as required in the extant standard. Auditors struggle with how to address fraud risks that involve third parties and what audit procedures they can perform.

Hong Kong Institute of Certified Public Accountants (HKICPA)

We also agree that the audit should focus on the fraud related to financial statement audit as it would be extremely challenging for the auditor if fraud related to a third party is also included in the scope of an audit.

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

As we point out in the body of our letter, fraud, including third party fraud, that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g. cybercrime attacks) is beyond the scope of the ISAs and cannot be made a required scope of the ISAs by the IAASB – only by legislators or appropriately legislatively empowered regulators. The audit profession may have a role in this area to the extent that those charged with governance or management or interested in having voluntary engagements performed in this area.

We note that management and those charged with governance – not auditors – are responsible for preventing and detecting fraud by other third parties that lead to a material misstatement of the financial statements: such third party fraud generally relates to misappropriation of assets. For example, retailers and other entities with physical or electronic assets of value are responsible for having effective controls in place to prevent “customers” and burglars from stealing merchandise or other items of value. However, the cost of those controls needs to be balanced against the benefit of preventing or detecting such theft. Third party (other than management or employees) misappropriation of assets also often takes place through suppliers not delivering goods or services as ordered, or not delivering them in the quality or quantity as ordered, but being paid as if they had. Again, the responsibility for preventing and detecting such misappropriation of assets is the responsibility of management and those charged with governance by establishing effective controls over goods and services received. When management or employees collude with other third parties to commit such fraud against an entity (e.g., the third parties misappropriate the assets with the connivance of management or employees in exchange for kick-backs, including having management or employees choose certain suppliers even though their price is higher than that for other suppliers for the same quality, or the quality is less than that of other suppliers for the same price), it is a case of corruption that may be exceedingly difficult to detect as part of the financial statement audit because management or employees may forge documents to cover up such fraud or, in some cases, there may not even be any documents within the entity to indicate such fraud.

Based on these considerations, we conclude that seeking to further increase auditor emphasis on third-party fraud as part of a financial statement audit is misplaced. This would not preclude management or those charged with governance from seeking voluntary engagements in this area.

Korean Institute of Certified Public Accountants (KICPA)

The IAASB is interested in perspectives on whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We are also interested in feedback about the auditor's

role in relation to third party fraud that does not result in a material misstatement of the financial statements but may have a severely negative impact on the entity (e.g., cybercrime attacks).

(KICPA Comment) We believe making auditors responsible for third party frauds that are not directly related with financial statements would excessively expand the responsibility of auditors beyond the inherent limitation of audits. It would be ① appropriate not to include the third party frauds in the scope of audits, ② in case when third party frauds or the signs of such frauds, not directly associated with financial statements, are found, it could be addressed via communication with an entity's management or TCWG, and ③ when such frauds impact financial statements (provisions, contingent liabilities etc.), it would be necessary to identify whether the direct or indirect impacts are appropriately disclosed in the notes to the financial statements.

Malaysian Institute of Accountants (MIA)

Fraud related to third parties (e.g., cyber-attacks resulting in theft of customer information)

We do not agree that the scope of the financial audit should be expanded to specifically cover fraud related to third parties as this additional scope may be beyond the knowledge and expertise of the auditor.

Additional emphasis should be placed in ISA 240 on the auditor's responsibilities around fraud related to third parties (e.g. evaluating the validity of audit evidence obtained from third parties), and the fact that the nature of fraud risks specific to third parties, with possible collusion with management, and the nature of the auditor's response may differ from risks of fraud internal to the entity.

More guidance is needed in relation to considering management authority on entering into contracts and agreements with third parties and risks related to misuse of power of attorney privileges.

4. Accounting Firms

CohnReznick (CR)

We believe enough emphasis is placed on the auditor's responsibilities around fraud related to third parties. We encourage the IAASB to consider interpretive guidance in regard to fraud. By providing examples of simple and complex frauds, along with how these frauds may affect risk assessment and an auditor's response, may provide appropriate real-world guidance to auditors of substantially all experience levels.

As articulated in the question, we do not believe audit procedures should be designed to detect fraud that is not directly related to risks of material misstatement. The overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud. If the auditor is focused on risks not associated with the financial statements, the risk of the auditor not detecting a material misstatement in the financial statements may increase, thus eroding audit quality and possibly harming the public interest. Also, the user's perception of what an audit is and is not may become blurred and harm the Profession and the user community.

KPMG

Third-party Fraud

The Board questions whether there should be additional emphasis placed on the auditor's procedures with respect to third-party fraud, which are currently triggered if auditors identify particular risks, e.g. around collusion opportunities between entity employees and parties external to the entity, as well as whether these

responsibilities should be broadened beyond fraud that is directly related to financial reporting to address matters such as cyber security risks that are related to operational or reputational risk.

We would be concerned with broadening auditors' responsibilities beyond the current remit and possibly widening the expectation gap, as a financial statement audit, by nature, is not directed towards identification of such frauds as it is focused on material misstatement of the financial statements rather than the entity's operational/ reputational matters.

Mazars USA (MAZUSA)

Response: We do not support expanding the auditor's responsibility around fraud related to third parties.

PricewaterhouseCoopers (PWC)

Whether enough emphasis is placed on the auditor's responsibilities around fraud related to third parties and also the role of the auditor in relation to third-party fraud that negatively impacts the entity but does not result in material misstatement of the financial statements e.g., cyber attacks

As the DP describes, the ISAs already include reference to third parties with respect to considering risks of material misstatement due to fraud. There does not appear to be a gap in the underlying requirements. It is therefore unclear exactly what stakeholders are seeking when stating that additional emphasis should be placed on procedures related to identifying third-party fraud. What seems most relevant is facilitating an appropriate risk assessment.

In that regard, we note that appendices 1 and 3 of ISA 240 do not explicitly address fraud risk factors relating to third-parties or circumstances that may be indicative of fraud, which could be helpful to the auditor in thinking about fraud risk. Consistent with our earlier responses, we believe the standard (and/or supplementary non-authoritative guidance) could be updated to reflect additional fraud risk factors and fraud indicators/schemes and, in doing so, could include sections more specifically addressing risks related to third parties.

Whether or not cybercrime or similar attacks upon an entity are considered "fraud", they may nevertheless be relevant to the audit if they have a material impact to the entity's financial statements. To the extent that such matters pose material risks to the business and its ability to operate, this can have a bearing on several aspects of the audit, including assessing the entity's ability to continue as a going concern and any related material uncertainties.

SRA

19.2 We do not support extension of present auditing standards regarding third-party fraud.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Third-party fraud

The DP explains that third-party fraud is often committed in collusion with employees within the entity. There are also purely third-party fraud issues, e.g., cybersecurity issues which may not necessarily involve intended collusion. In our view, third-party fraud with employee collusion should not be considered as third-party fraud, but as an employee fraud with an external accomplice.

CPA Australia (CPAA)

Whilst broad third-party fraud risks can reasonably be expected to be considered by the auditor at a high level, we do not consider that the auditor can conduct an in-depth assessment of third party fraud risk. A more specific targeted engagement is required to address those risks.

9. Individuals and Others

Christian Minarriz (CM)

Third party fraud: current definition of “fraud” in the ISAs includes fraud perpetrated by third parties. Placing particular emphasis on third party fraud may create an unnecessary focus on fraud perpetrated by third parties, while diverting attention from internal fraud (which is more common, especially for fraudulent financial statements schemes). Requiring auditors to design procedures to detect third party fraud which is not material to financial statements may inappropriately expand the scope of an audit. Some third party fraud that may severely impact the entity (like cyber-attacks) may generally be included in the scope of ISA 250 as fraud is generally a illegal act, so the ISA 250 requirements may be applicable.

Q2a.3 - No\Specific areas where respondent is opposed to enhanced or more requirements\Q2a.3 - No - 07 Other areas where respondent is opposed to changes in requirements, including those who opposed more broadly to any enhancements

4. Accounting Firms

HLB International (HLB)

Question 2 (a)

We do not believe the auditor should have enhanced or more requirements with regard to fraud in an audit of financial statements. We believe the existing standards are sufficient and appropriate and enhanced or more requirements with regard to fraud in an audit of financial statements will ultimately not serve the public interest. We agree that sometimes auditors do not fully understand or appreciate the requirements and more application guidance is needed, not enhanced or additional requirements. Failures occur because the auditor did not do what should have been done. This does not mean the existing standard is insufficient and will therefore not be fixed by a new standard.

Mazars USA (MAZUSA)

Response: We believe that the current auditing and ethics standards, including those recently updated, provide the appropriate guidance to auditors for execution of risk assessed and principles-based fraud procedures tailored to each audit. As such, we do not believe the auditor should have enhanced or more requirements with regard to fraud. When audit testing is performed with an appropriate level of rigor and professional skepticism, the auditors have a reasonable likelihood of identifying material fraud, as is contemplated by the standards.

MNP LLP (MNP)

No, preventing and detecting fraud is foremost the entity's responsibility. The auditors are already required under paragraph .35 through .38 of ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements to evaluate the impact of any fraud identified on the audit.

We do not believe any changes need to be made for certain entities or specific circumstances within the ISA or outside the scope of an audit.

We do not believe that any further enhancements are needed within the standards. For example, ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement has adequately addressed audit procedures to be performed by the auditor for identifying risks of material misstatement which specifically references risks arising from fraud. These requirements have not yet been implemented.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

The current requirements are sufficient. Increasing the auditor's responsibility with regards to fraud will perpetuate the already existing knowledge gap.

9. Individuals and Others

Christian Minarriz (CM)

I think that the current requirements are robust, so little changes are needed (other than application guidance and education requirements about fraud). Regarding the specific proposals:

Expanding Auditor's responsibilities: they should not be expanded as it would be out of the objective of an audit

Evaluate internal control for fraud prevention and detection: possible implementation should be considered at a jurisdiction level if demanded by the public (it would not be appropriate to require it for all PIE as, for example audit report over ICFR is not required for non-accelerated filers in the US, so the scope should be determined in each jurisdiction), and preferably implemented as a separate engagement with a separate report (even when auditors may perform both engagements at the same time). Otherwise, it would be extending the scope of the audit (especially if it includes fraud which is not related or immaterial to financial statements). In practice, requiring evaluation of IC for fraud prevention and detection relevant to the financial statements would not be very different to evaluation of IC relevant to financial reporting (i.e. SOX 404) as many controls address both fraud and error.

Q2a.4 - No comment

6. Member Bodies and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

International Air Transport Association (IATA)

PIRC

9. Individuals and Others

Ahmed Al-Qawasmi (AAQ)

Constantine Cotsilinis (CC)

Dmitrii Timofeev (DT)

Michael Bradbury (MB)

The Unlimited (TU)