

Fraud – Feedback and Issues

Objective:

The objective of the IAASB discussion in September 2024 is to:

Provide an overview of respondents comments to certain questions from the Exposure Draft (ED-240): [Proposed International Standard on Auditing 240 \(Revised\), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs.](#)

Obtain the Board's input on the Fraud Task Force's (Fraud TF) views and recommendations to address key themes identified from the responses.

Overarching Matter for IAASB Consideration:

1. The Board is asked whether they agree with the Fraud TF summary of respondents' feedback presented in Part B this Agenda Item, and whether there are any other significant issues raised by respondents that also should be considered?

Approach to the Board Discussion:

The Fraud TF Chair will pause after a brief presentation regarding **Part B** of this Agenda Item to receive the Board's feedback on the overarching matter included in Question 1 above. The Board will also be asked to respond to certain specific matters for the IAASB consideration outlined in **Part B** of this Agenda Item for those topics where the Fraud TF has presented views and recommendations in response to the feedback.

Introduction

Background

1. In February 2024, the Board published ED-240 for public consultation. ED-240 sought feedback from respondents whether the revisions proposed to enhance or clarify extant ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, addressed the project objectives that support the public interest described in Section III of the [Project Proposal](#). The comment period was 120 days and closed on June 5, 2024.

Materials Presented

2. This paper sets out the following:
 - **Part A:** Summary of the broad range of stakeholders who have submitted written responses to ED-240 and an explanation for the presentation of respondents' comments.
 - **Part B:** Analysis of respondents' comments for certain specific questions in the Explanatory Memorandum (EM) that accompanied ED-240, and the Fraud TF views and recommendations to address the key themes from the responses for those questions, in the following Sections:

Section	Description
I	Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements
II	Risk Identification and Assessment
III	Fraud or Suspected Fraud
IV	Transparency on Fraud-Related Responsibilities and Procedures in the Auditor’s Report

- **Part C:** Way forward.

3. This Agenda Item includes the following appendices and other agenda items:

Appendix 1	Overview of the Fraud TF members and activities since ED-240 was published
Appendix 2	List of respondents to ED-240
Appendix 3	Summary of NVivo reports and the related Section in Part B of this Agenda Item where the summary is presented
Agenda Item 8-A	Draft of proposed ISA 240 (Revised) (Marked from ED-240)
Agenda Items 8-B.1 to 8-B.4 (Supplemental)	Word NVivo reports that include comments from respondents
Agenda Items 8-C.1 to 8-C.4 (Supplemental)	Excel NVivo reports that analyze the respondents’ comments

Coordination

Going Concern Task Force

4. The Chairs and Staff of the Fraud and Going Concern projects met in July 2024 to discuss the impact on the auditor’s report of their respective proposals to enhance transparency relating to fraud and going concern. The Board will be considering the aggregate impact on the auditor’s report of those proposals during the upcoming meeting in September 2024 (see **Agenda Item 9**).

Part A: Overview of the Written Responses to ED-240

Overview of Respondents

- The EM accompanying ED-240 asked respondents for feedback on twelve questions.
- Eighty-nine written responses were received from a broad range of stakeholders from all geographical regions as follows (see **Appendix 2** for a list of respondents to ED-240):

Stakeholder Type	No.	Region	No.
Monitoring Group ¹	2	Global	17
Regulators and Audit Oversight Authorities	8	Asia Pacific	15
Jurisdictional and National Auditing Standard Setters	15	Europe	22
Accounting Firms	15	Middle East and Africa	10
Public Sector Organizations	5	North America	20
Member Bodies and Other Professional Organizations	33	South America	5
Academics, Individuals and Others	8	Total	89
Investors and Analysts	3		
Total	89		

Presentation of Comments

- NVivo software has been used to assist the Fraud TF and Staff when analyzing the responses received to the questions on page 34 of the EM accompanying ED-240. **Appendix 3** outlines the questions that have been analyzed for the September 2024 IAASB meeting and the corresponding NVivo reports relevant for each question analyzed.

¹ The MG comprises the Basel Committee on Banking Supervision (BCBS), the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank. Two MG members including IFIAR and IOSCO submitted responses to the ED-240.

Part B: Analysis of Responses by Significant Theme and the Fraud Task Force Views and Recommendations

8. The heat map below depicts the level of support expressed by respondents for key concepts or topics that are the subject matter of the 12 questions in the EM accompanying ED-240. Green denotes a high level of support for the concept or topic. Yellow denotes qualified support for the concept or topic with enhancements proposed by respondents. Orange denotes mixed views for the concept or topic, ranging from strong agreement to strong disagreement. Questions with a tick mark are addressed in this paper.



9. **Sections I–IV** below include an analysis of respondents' feedback based on responses to questions 1, 3, 4 and 5 of the EM accompanying ED-240. In presenting the feedback, the Fraud TF grouped together respondents' feedback which dealt with the same theme regardless of where that feedback was presented in each respondent's ED-240 response template. For example, feedback provided by a respondent to a question that relates to the same theme as feedback provided by another respondent to a different question was grouped together by the Fraud TF for the purposes of the analysis presented in **Sections I–IV below**.
10. In prioritizing the questions analyzed in **Sections I–IV** below, and when providing its views and recommendations, the Fraud TF focused on those matters where mixed feedback was received from respondents (i.e., questions where respondents both agreed or disagreed with the proposals in ED-240). This is because the Fraud TF is seeking strategic input from the Board on these matters, including proposed direction. The feedback on the questions not addressed in this Agenda Item, along with the Fraud TF views and recommendations, will be presented to the Board for discussion in December 2024 (see paragraph 124 below).

Section I – Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

Highlights from Respondents’ Feedback

- Respondents were generally supportive of the efforts by the IAASB in ED-240 to clarify the auditor’s responsibilities relating to fraud, including those related to non-material fraud and third-party fraud.
- However, respondents across all stakeholder groups commented that ED-240 could be further enhanced to clarify the auditor’s responsibilities relating to:
 - Third-party fraud.
 - Non-material fraud.
 - How illegal acts like corruption, bribery and money laundering relate to fraud.
- Respondents, primarily representing practitioners, expressed concerns about:
 - Decoupling paragraphs in ED-240 that deal with the auditor’s responsibilities relating to fraud (paragraph 2) from those that deal with inherent limitations of the audit relating to fraud (paragraphs 9–11 and A12).
 - Descriptions of inherent limitations have not been augmented in ED-240 to further emphasize additional limitations relating to fraud.
 - The proposed reordering of the paragraphs that deal with the responsibilities of the auditor, management and TCWG. Respondents noted that describing the auditor’s responsibilities first could be misconstrued as suggesting that the auditor plays a more significant role than management and TCWG in preventing and detecting fraud.

Overview of Responses

11. Question 1 asked respondents for their views whether the requirements and application material of ED-240 clearly set out the auditor’s responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud.
12. The chart on the next page shows an analysis of the responses to question 1 per stakeholder group (see the separate NVivo reports in **Agenda Items 8-B.1 and 8-C.1** for further details).



Respondents' Comments

Monitoring Group (MG) Respondents

13. Both of the MG respondents were supportive of the steps taken by the IAASB to clarify the auditor's responsibilities relating to fraud, including non-material fraud and third-party fraud, and how the inherent limitations of an audit of financial statements impact those responsibilities.
14. One MG respondent also appreciated the Board's efforts to frame the discussion of what the auditor's responsibilities are "*without the unnecessary discussion of what the auditor's role is not that has long dominated the profession's discussion of the topic.*" However, the MG respondent also encouraged the IAASB to:
 - (a) Consider a new definition of fraud given challenges associated with:
 - (i) A lack of clarity around the auditor's role with respect to third-party fraud.
 - (ii) How concepts associated with bribery, corruption and money laundering fit within the definition of fraud in ED-240.
 - (iii) The subjectiveness associated with determining whether an act is an "unjust" advantage.
 - (iv) Determining whether an act is an "illegal" advantage particularly since ED-240 paragraph 6 states "*the auditor does not make legal determinations of whether fraud has actually occurred.*"
 - (b) Further clarify the intended scope of the auditor's responsibilities relating to third-party fraud. Specifically, the MG member recommended to: "*...include more guidance and examples of when third-party fraud is, and is not, ...[and] further guidance and examples on the auditor's work effort related to third-party fraud, including the extent of procedures to be performed, in order to promote consistent understanding and application of the requirements.*"
 - (c) Further clarify the auditor's responsibilities relating to misappropriation of assets particularly when indications of misappropriation of assets are identified but those incidents have already been appropriately accounted for and sufficiently disclosed in the financial statements.

Other Respondents

15. Respondents who agreed with question 1 believe that the IAASB has succeeded in clarifying the auditor's responsibilities relating to fraud in an audit of financial statements by:
- Describing the auditor's responsibilities before those of management and those charged with governance (TCWG).
 - "Decoupling" the description of the auditor's responsibilities relating to fraud in an audit of financial statements from the description of the inherent limitations of an audit relating to fraud.
 - Introducing a statement that the inherent limitations of an audit relating to fraud do not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to fraud.
16. The areas where a significant proportion of respondents felt there were opportunities to further enhance the ED-240 across all response categories (e.g., agree with comments, neither agree nor disagree, and disagree with comments) were as follows:

Responsibilities of the Auditor Relating to Fraud in an Audit of Financial Statements

- (a) Respondents expressed the view that auditors are not responsible for detecting fraud in audits of financial statements and some recommended that ED-240 should state this clearly in order to manage the expectations gap. Although this was not a widely held view, the Fraud TF feels that it is important to address why it believes it is a misconception of the auditor's responsibilities relating to fraud in an audit of financial statements. Refer to paragraphs 18–19 below for the Fraud TF's views on this matter.

Relative Emphasis on the Responsibilities of the Auditor vs. Management and TCWG

- (b) Regarding the reordering of paragraphs in ED-240 related to the responsibilities of auditor, management and TCWG:
- (i) Respondents felt that the reordering could be misconstrued to imply that the auditor, rather than management and TCWG, has the primary responsibility relating to the prevention and detection of fraud.
 - (ii) Other respondents also pointed out that the proposed ordering of descriptions of responsibilities of management, TCWG and auditors is now inconsistent with other ISAs, including ISA 250 (Revised)² and ISA 570 (Revised)³, which describe management's and TCWG's responsibilities before those of the auditor.
- (c) In contrast to the comments described above which suggest that the role of the auditor has been overemphasized in ED-240 (i.e., overemphasized relative to the role of management and TCWG), a respondent representing investors thought that it is not necessary to describe the responsibilities of management and TCWG in ED-240 as those responsibilities are already well established in laws and regulations in jurisdictions around the world.

² ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

³ ISA 570 (Revised), *Going Concern*

Inherent Limitations of an Audit

- (d) The key themes in comments relating to how inherent limitations are dealt with in the proposed standard are as follows:
- (i) Respondents expressed the view that “decoupling” descriptions of inherent limitations of the audit relating to fraud (i.e., in the introductory paragraphs 9–11 and in paragraph A12 of ED-240) from the auditor’s responsibilities relating to fraud has reduced clarity about the auditor’s responsibilities because those concepts are interrelated and decoupling them may widen the expectations gap. It was also noted the introduction of a statement that inherent limitations don’t diminish the auditor’s responsibilities relating to fraud, may be misconstrued by users of financial statements to mean that those inherent limitations can be overcome if the audit is properly planned and executed.
 - (ii) Respondents felt that the description of inherent limitations needs to be expanded to emphasize to users of financial statements the “real limitations in the powers of auditors that impact their ability to detect fraud.” Respondents recommended augmenting the descriptions of inherent limitations to include the following:
 - Auditors generally do not have legal powers to search for and seize documents from within the entity, from other entities or individuals.
 - Auditors generally do not have the legal powers to interrogate individuals within the entity or from outside the entity, under oath or otherwise.
 - Management has the documents and records under its control and can therefore choose to conceal documents and records from the auditor without the auditor becoming aware of such concealment.
 - (iii) Respondents found the statement introduced in paragraph 10 of ED-240 (“However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence”) to be confusing. Specifically, they believe it is unclear whether the IAASB has moved the bar on what is considered the acceptable threshold of audit evidence as the statement refers to “persuasive audit evidence” instead of “sufficient appropriate audit evidence”.
 - (iv) Respondents felt that the deleted sentence from paragraph 6 of extant ISA 240 (“While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error”) should be reinstated and added at end of the paragraph A12 of ED-240. They believe the sentence adds important context around the difficulty that auditors face in determining fraudulent intent in judgmental areas.
 - (v) Other respondents recommended that paragraph A12 of ED-240 should be reinstated within the introductory paragraphs.

Definition of Fraud and Related Application Material

- (e) Although respondents recognized the proposed definition of fraud in paragraph 18 of ED-240 remains unchanged from extant ISA 240, respondents had the following concerns:

- (i) Regarding the **definition of fraud**, a respondent recommended that it be changed as the respondent believes the reference to “unjust or illegal” is frequently used to support an individual’s fraudulent actions as just”.
- (ii) Regarding **third-party fraud**, although respondents acknowledged that the concept of third-party fraud is not new and that it exists in the definition of fraud in the extant standard, they thought that the introduction of several new paragraphs of application material related to third-party fraud gave rise to additional questions that needed to be clarified by the IAASB, including:
 - What are the categories of third parties that are relevant to the auditor and what is the work effort associated with identifying and responding to third-party fraud risks?
 - When fraud or suspected third-party fraud is identified during the audit, what is the related work effort when applying the requirements related to fraud and suspected fraud as set out in paragraphs 55–59 in ED-240?
- (iii) Regarding **corruption, bribery and money laundering**, respondents commented that more clarity is needed about how these acts, referred to as illegal or unethical acts in paragraph A19 of ED-240, relate to fraud. Specifically, these respondents felt that more clarity is needed about whether these illegal or unethical acts are also fraudulent acts that fall within the scope of ED-240. Respondents expressed the following views:
 - The definition of fraud is too narrow and that it should be expanded to incorporate references to corruption, bribery and money laundering.
 - The related application material should be more definitive about referring to corruption, bribery and money laundering acts as fraudulent acts and clarifying that ED-240 applies to these types of fraud.
 - There could be more guidance in the application material to clarify when corruption, bribery and money laundering should be considered fraud.

Work Effort Relating to Non-Material Fraud or Suspected Fraud

- (f) Respondents thought there is a lack of clarity around how the auditor should respond to identified instances of non-material fraud or suspected fraud, including whether the auditor is required to apply the requirements in paragraphs 55–59 in ED-240. Specifically, respondents recommended that the IAASB integrate a threshold in the fraud or suspected fraud requirements to introduce scalability and proportionality (i.e., paragraphs 55–59) whereby the auditor would not be required to apply some of those requirements to instances of fraud or suspected fraud that are determined to be clearly inconsequential.

The Fraud TF's Views and Recommendations

Relevant Paragraphs in **Agenda Item 8-A**:

Paras. 1–11, 17, 18, A1–A12, A18–A21A

17. The Fraud TF acknowledges the support expressed by respondents for the revisions proposed by the IAASB to enhance clarity about the auditor's responsibilities relating to fraud. Regarding the feedback detailed in paragraph 13–16(f) above, the Fraud TF have the following views and recommendations relating to each of the topical areas as follows.

Responsibilities of the Auditor relating to Fraud in an Audit of Financial Statements

18. Regarding the view expressed by respondents that the auditor is not responsible for detecting fraud in an audit of the financial statements (see paragraph 16(a) above), the Fraud TF believes the view is a misconception of the auditor's responsibilities relating to fraud. Specifically, the Fraud TF notes that respondents are pointing at the following two paragraphs from ED-240 to support this view:
- (a) Paragraph 2 does not explicitly state that the auditor is responsible for detecting fraud.
 - (b) Paragraph 6 specifically states that the auditor is not responsible for making legal determinations of whether fraud has actually occurred.
19. The Fraud TF notes the following:
- (a) Regarding paragraph 2, while it does not explicitly mention the auditor's responsibility for detecting fraud, the Fraud TF highlights that this responsibility is implicit. Specifically, the auditor is responsible to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to error or fraud. This implies the auditor's responsibility for detecting material misstatements due to fraud, although, as specified in paragraph 10 of ED-240, there is an inherent risk that some material misstatements due to fraud may go undetected.
 - (b) Regarding paragraph 6, some misconstrue this statement to mean that auditors are not responsible for detecting fraud. However, the objective of this sentence is to remind auditors that legal determinations about whether an act constitutes fraud are made by a judge or jury, not by the auditor, management or TCWG.

Relative Emphasis in ED-240 on the Responsibilities of the Auditor, Management and TGWG

20. The Fraud TF notes that the IAASB did not intend to alter the balance of responsibilities among the auditor, management, and TCWG regarding fraud when it reordered the related paragraphs. The descriptions of each party's responsibilities remain unchanged from extant ISA 240, including the statement in paragraph 3 of ED-240 that the "primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity." Respondents indicated that the reordering of the paragraphs has clarified the auditor's responsibilities within the context of an audit of financial statements. Consequently, the Fraud TF recommends that the Board retain the proposed ordering in ED-240, despite potential inconsistencies it may create when compared to the ordering of similar paragraphs in other standards.
21. The Fraud TF also acknowledges the recommendation from respondents that the IAASB could collaborate with regulators to advocate for stronger rules and regulations regarding management's and TCWG's responsibilities related to fraud. Such collaboration would emphasize the need for an ecosystem-wide approach to combatting fraud. While rules and regulations concerning the responsibilities of

management and TCWG to prevent and detect fraud, including designing and implementing effective fraud risk management programs, are beyond the IAASB's remit, the Fraud TF recognizes the importance of a coordinated approach to combating fraud in the public interest.

Inherent Limitations of an Audit

22. The Fraud TF thinks it's useful to revisit why the IAASB proposed changes in ED-240 relating to inherent limitations, including why the IAASB proposed to decouple descriptions of inherent limitations and the responsibilities of the auditor relating to fraud. Stakeholders had expressed concerns that the emphasis in extant ISA 240 on what auditors cannot do led to a lack of clarity about their actual responsibilities related to fraud in an audit (refer to Key Issue 19(a)(i) in the Project Proposal).
23. The Fraud TF notes that inherent limitations of an audit are addressed in the foundational standard, ISA 200.⁴ This includes the statement introduced in ED-240 that "the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence."⁵ The inclusion of this statement in ED-240 was not intended to raise the threshold for what constitutes sufficient appropriate audit evidence. According to ISA 200,⁶ auditors are required to obtain more persuasive audit evidence when they believe the risk of material misstatement (ROMM) is higher.
24. The Fraud TF believes that the revisions in ED-240 have effectively addressed the Key Issue outlined in the Project Proposal. Nevertheless, the TF proposes that to reinstate the additional text proposed by respondents for paragraph A12 in **Agenda Item 8-A** (as described in paragraph 16(d)(iv) above). This text, which exists in the extant ISA 240, accurately states that "while the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error."
25. However, the Fraud TF believes it is not appropriate to introduce new inherent limitations into Proposed ISA 240 (Revised), including those outlined in paragraph 16(d)(ii) above. Expanding descriptions of inherent limitations related to fraud may reduce clarity regarding the auditor's responsibilities. Some of the inherent limitations proposed by respondents, such as the inability to "search for and seize documents" or "interrogate individuals," are self-evident because these legal powers belong to investigators and lawyers. The Fraud TF believes that introducing new concepts associated with inherent limitations in ED-240 could exacerbate concerns about a lack of clarity associated with what auditors are responsible for relating to fraud in an audit of financial statements.

Definition of Fraud and Related Application Material

26. Regarding the recommendation by respondents that the IAASB should change the definition of fraud, the Fraud TF notes that the Board considered and decided against reopening the definition of fraud (see footnote 2 of the Project Proposal). It is important to note that calls to change the definition of fraud were not widespread and, accordingly, the Fraud TF recommends that the definition of fraud in ED-240 should not be reopened.
27. Nevertheless, the Fraud TF believes that there is merit in further considering the concerns expressed by

⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁵ ISA 200, paragraph A57

⁶ ISA 200, paragraph A47

a number of respondents that the IAASB relating to:

- (a) Third-party fraud; and
 - (b) Acts of corruption, bribery and money laundering.
28. Regarding concerns expressed by respondents about third-party fraud (see paragraph 16(e)(ii) above), the Fraud TF notes the following:
- (a) The definition of fraud in paragraph 18(a) remains unchanged from extant ISA 240, including the reference in the definition relating to fraud committed by third parties. The introduction of new requirements and application material of ED-240 relating to third-party fraud were not intended to expand the scope of the auditor's responsibility relating to third-party fraud. Rather, they were intended to enhance clarity about the auditor's responsibilities and work effort relating to third-party fraud.
 - (b) The enhancements in ED-240 associated with third-party fraud relate primarily to the auditor's risk assessment procedures. Specifically, the IAASB introduced a new requirement for the engagement team to exchange ideas during their engagement team discussion about how assets could be misappropriated by third parties (see paragraph 29(a)(ii)(c)). The IAASB also introduced application material (see paragraph A80 in ED-240) which relates to the requirement for the auditor to obtain an understanding of the entity's risk assessment process (paragraph 35(b) of ED-240). The application material clarifies that this understanding may include obtaining an understanding of the entity's risk assessment process relating to susceptibility to third-party fraud.
29. However, the Fraud TF acknowledges the persisting concerns about a lack of clarity around the auditor's responsibilities relating to third-party fraud and proposes to introduce application material (see paragraphs A21 and A21A in **Agenda Item 8-A**) that describes the third parties that may be considered by the auditor in applying proposed ISA 240 (Revised).
30. The Fraud TF believes that the revisions proposed in ED-240 along with the incremental revisions proposed in **Agenda Item 8-A** serve to further clarify the auditor's responsibilities related to third-party fraud and the related work effort. The Fraud TF is interested in the Board's view if any additional revisions may be required to ED 240 relating to their party fraud.
31. Regarding corruption, bribery, and money laundering, the Fraud TF maintains its view that it is not appropriate for Proposed ISA 240 (Revised) to definitively classify these acts as either illegal (i.e., and therefore within the scope of ISA 250 (Revised)) or fraudulent (i.e., and therefore within the scope of Proposed ISA 240 (Revised)) in all cases. Those determinations will vary depending on whether these acts violate laws or regulations, including criminal laws in the applicable jurisdictions where the acts are committed. This variability necessitates a nuanced approach by the IAASB, acknowledging the distinct legal and regulatory landscapes worldwide, and the Fraud TF accordingly proposes that no further revisions should be included in ED-240 relating to this matter.

Work Effort Relating to Non-Material Fraud or Suspected Fraud

32. Refer to [Section III](#) for the Fraud TF's views and recommendations relating to the required work effort for non-material fraud or suspected fraud.

Matters for Board Consideration:

2. The Board is asked for its views on the Fraud TF recommendations and changes discussed above and reflected in **Agenda Item 8-A** to address matters relevant to the auditor’s responsibilities relating to fraud in an audit of financial statements. In particular:
 - a) Does the Board agree with the Fraud TF’s views and recommendations in this section?
 - b) What further revisions are required, if any, to add clarity about the auditor’s responsibilities and work effort relating to third-party fraud (see paragraphs 28–30 above)? (Refer to the following paragraphs in **Agenda Item 8-A**: 18(a), 29(a)(ii)b., A21, A21A, A80)
 - c) Are there any other matters that should be considered and addressed by the Fraud TF relating to the auditor’s responsibilities relating to fraud in an audit of financial statements?

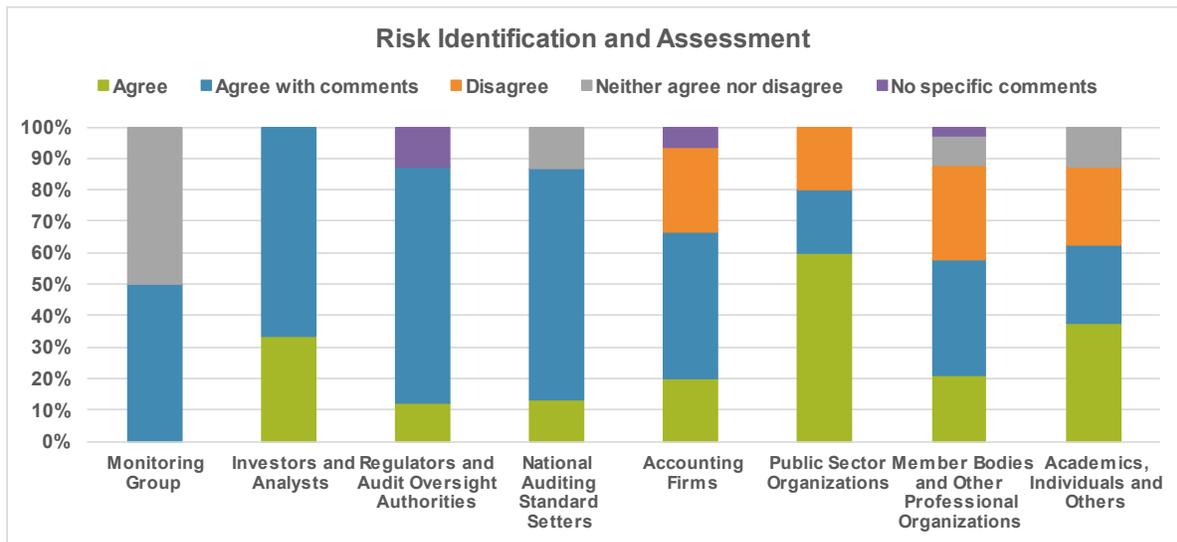
Section II – Risk Identification and Assessment

Highlights from Respondents’ Feedback

- Broad support for the enhancements made for risk assessment procedures and related activities.
- Mixed views received with regard to the approach taken to integrate the fraud lens to the foundational requirements of ISA 315 (Revised 2019),⁷ as it may result in duplication of efforts in practice.
- Encouragement to further clarify certain requirements, by providing additional examples and improve consistencies between the requirements, application material and appendices, in particular for:
 - The evaluation of fraud risk factors;
 - The presumption of ROMMs due to fraud in revenue recognition;
 - The engagement team discussion; and
 - The whistleblower program.

Overview of Responses

33. Question 3 asked respondents if they agreed that ED-240 appropriately builds on the foundational requirements in ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements.
34. The chart below shows an analysis of the responses to question 3 per stakeholder group (see the separate NVivo reports in **Agenda Items 8-B.2 and 8-C.2** for further details).



Respondents’ Comments

⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Monitoring Group Respondents

35. The MG respondents supported the approach to build on the foundational requirements in ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements.
36. However, the MG respondents noted that there are some inconsistencies in how the Board determined which key requirements from ISA 315 (Revised 2019) would be included in ED-240 and how such requirements were modified for the “fraud lens”. MG respondents suggested a few key areas where the requirements included in ED-240 could be further tailored and suggested other requirements from ISA 315 (Revised 2019) to be included in ED-240 to promote a more robust risk identification and assessment.
- (a) The iterative nature of the fraud risk identification and assessment could be strengthened by emphasizing that this process continues until issuance of the auditor’s report.
 - (b) The fraud inquiry requirements should be enhanced as these provide meaningful information to the auditors. Suggestions included:
 - Centralizing all the requirements in a subsection within the risk assessment and related activities section.
 - Expanding the requirement for inquiries to include inquiries related to the concepts of incentive/pressure, opportunities and attitudes/rationalization to commit fraud.
 - Extending the inquiries to TCWG and management as they are relevant sources of information.
 - Including specific documentation requirements related to the inquiries performed.
 - (c) The link between the fraud risk factors and the inherent risk factors as currently included in ED-240 is confusing, as ED-240 implies that an effective control environment can mitigate the risk of fraud, which is contradictory to the concept of inherent risk as explained in ISA 315 (Revised 2019)
 - (d) The presumption of ROMMs due to fraud in revenue recognition should be further strengthened by clarifying that the threshold for rebuttal should be high and applied in limited circumstances. In addition, examples provided in the application material should take into account the rationalization concept of the fraud triangle.
 - (e) The entity’s whistleblower program, when present, plays a crucial role in the identification of fraud. Therefore, the IAASB should consider adding a requirement to evaluate the entity’s whistleblower program and the matters identified through the program when performing the risk identification and assessment process.

Other Respondents

37. Generally, respondents supported the proposed requirements for risk identification and assessment, noting the following key reasons for their support:
- (a) The revisions result in an improved alignment with ISA 315 (Revised 2019) (including structure and flow) and build on the foundational requirements of ISA 315 (Revised 2019) and other ISAs, leading to a more robust risk identification and assessment in relation to fraud and easier to apply along with other standards.

- (b) The enhanced requirements will promote more consistent behavior from the auditor when applying the requirements, facilitate an effective identification and assessment of ROMM due to fraud and reinforce the importance of exercising professional skepticism throughout the audit. This will result in a better-informed risk identification and assessment.
 - (c) A fraud lens has been applied to the requirements in the Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control section of ED-240, clarifying the fraud considerations when performing these requirements in fraud risk identification and assessment procedures.
38. The areas where a significant proportion of respondents felt there were opportunities to further enhance the risk assessment requirements across all response categories (e.g., agree with comments, neither agree nor disagree, and disagree with comments) are set out in paragraphs 39–55.

Approach to Integrating the Fraud Lens to the Foundational Requirements in ISA 315 (Revised 2019)

39. Respondents raised the following concerns:
- (a) The requirements in ED-240 appear repetitive of the requirements included in ISA 315 (Revised 2019) and may lead the auditors to duplicate risk assessment procedures focusing on fraud and related documentation.
 - (b) Certain requirements from other ISAs have been included in ED-240, without or with limited modification, resulting in a lack of clarity on how the fraud lens should be applied when performing the requirements. Respondents highlighted two particular paragraphs to illustrate their comments:
 - (i) Paragraph 26 of ED-240 is almost identical to the paragraph 13 of ISA 315 (Revised 2019), with the only adjustment being that the auditor should take into account fraud risk factors when identifying and assessing ROMM.
 - (ii) Paragraph 33 of ED-240 has minimal differences to paragraph 19 of ISA 315 (Revised 2019).

Respondents provided suggestions to streamline the requirements and focus on only the parts that provides the fraud lens to the requirement.

- (c) Other requirements appear to simply have been reworded. Respondents noted that re-wording requirements may create confusion whether it implies a different requirement, or the same procedures may be performed when applying the requirement in ED-240 and the equivalent requirement in other ISAs. This lack of clarity may lead to inconsistent application in practice.
40. To address the concerns raised in paragraph 39, respondents encouraged the IAASB to:
- (a) Further clarify in ED-240 which fraud-related risk assessment procedures are truly incremental compared to those that are repeated from other ISAs.
 - (b) Include only the incremental requirements in ED-240 and include application material related to fraud when the language in ISA 315 (Revised 2019) does not sufficiently address the fraud element of the requirement.
 - (c) Consider including the fraud lens into the requirements found in the other ISAs, as opposed to duplicating the requirements in ED-240. For example, requirements included in ISA 315 (Revised 2019) should address both “risk of errors and risk of fraud”.

Evaluation of Fraud Risk Factors and Identifying and Assessing the ROMMs due to Fraud

41. Respondents commented on the lack of clarity of the requirement in paragraph 32 of ED-240 and struggled to understand its purpose. Some thought its purpose is for auditors to evaluate the audit evidence obtained, while others were not able to distinguish the requirement from the requirement in paragraph 40 of ED-240. Respondents advised that the requirement in paragraph 32 be relocated closer (i.e., immediately before), or incorporated in paragraph 40, as the auditor is only able to make the evaluation of fraud risk factors after they have obtained the required understanding of the entity. In addition, respondents noted that this relocation may help the auditor understand the purpose of the risk assessment procedure to identify fraud risk factors; namely, to assess whether they give rise to ROMMs due to fraud.
42. Respondents noted that the relationship between inherent risk and fraud risk factors is not clear in ED-240. Specifically, they believe ED-240 is not sufficiently clear about whether fraud risk factors are a subset of inherent risk factors specific to fraud or if they are separate factors not related to inherent risk factors in ISA 315 (Revised 2019). For example, respondents commented that paragraph A22 of ED-240 explains that fraud risk factors should be evaluated before consideration of controls, however examples provided in paragraph A57 of ED-240 indicate there are effective controls in place, contradicting the principle that inherent risks are considered before controls. Therefore, respondents encouraged the IAASB to further clarify the intended interaction between the concepts of inherent risk factors and fraud risk factors and include examples to illustrate the relationship.
43. Regarding fraud risk factors, respondents also noted inconsistencies between the requirement, application material and the examples and the appendices. The definition of fraud risk factors in paragraph 18(b) of ED-240 and the related application material in paragraph A22 of ED-240 does not include the concept of attitude or rationalization but includes the concept of incentive/pressure and opportunity. However, appendix 1 of ED-240 explains that the risk factors are further classified based on the three conditions. Respondents suggested to further align the concepts.
44. Respondents also noted discrepancies between the concept of spectrum of inherent risk included in ISA 315 (Revised 2019) and the position in ED-240 that the identified and assessed ROMMs due to fraud must be treated as significant risk. Respondents are of the view that the fraud risk factors are a subset of inherent risk factors and therefore should be assessed in the same way (i.e., using the spectrum of risk model in ISA 315 (Revised 2019)), evaluating the likelihood and magnitude of misstatement. Respondents believe that requiring auditors to treat all ROMMs due to fraud as significant risks could lead auditors to perform too much work on fraud risks that would otherwise be determined to be on the lower end of the spectrum on inherent risk. Other respondents simply encouraged the IAASB to clarify in the application material the intent behind ED-240 requiring that all ROMMs due to fraud be treated as significant risks.

Presumption of the ROMMs Due to Fraud in Revenue Recognition

45. Respondents noted that the Project Proposal included a proposal to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment. Respondents recognized that the IAASB has made an effort to that effect by removing the reference to when the presumption is not applicable in the circumstances of the engagement. However, respondents questioned if ED-240 still focuses too much on the rebuttal of the presumption of the ROMM due to fraud in revenue recognition, given the examples provided when it may be appropriate to rebut the presumption of risk in the application material.

46. On the other hand, respondents questioned the relevance of the presumption of ROMM due to fraud in revenue recognition for certain entities, such as smaller or less complex entities and public sector entities. Respondents suggested that the requirement should consider where fraud risk may appear in an entity, which could be in revenue or elsewhere in the financial statements. The guidance should include examples that consider the pressures or incentives for management to commit fraudulent financial reporting, which may affect a number of different financial statement line items not limited to revenue.
47. Respondents also commented on the application material, noting different ways that the application material could be enhanced, including:
- (a) Clarifying that the identification of ROMM due to fraud in revenue recognition should not be limited to manual journal entries and the cut-off assertion, as often seen in practice.
 - (b) Modifying the language in paragraph A110 of ED-240, as the word “ordinarily” introduces challenges when applying professional judgment and may lead practitioners to conclude that the presumption of ROMM due to fraud in revenue recognition should not be rebutted. Respondents noted some inconsistencies between this interpretation and paragraph A111 of ED-240 where examples are provided for circumstances where the rebuttal may be appropriate.
 - (c) Revising the examples in paragraphs A109 and A111 of ED-240, as they are either very complex or very simple and would not cover the majority of the cases seen by practitioners or reflect where it is most challenging for practitioners to conclude on the appropriateness of the presumption of ROMM due to fraud in revenue recognition. Revisions should incorporate the concept of the fraud triangle in the examples provided.
48. Respondents also commented on the documentation requirement related to the rebuttal of the presumption of ROMM due to fraud in revenue recognition. Paragraph 70(d) of ED-240 may be seen as an encouragement to auditors to rebut the presumption. Therefore, respondents suggested to replace the requirement to document the analysis performed when assessing the presumption of ROMM due to fraud in revenue recognition.

Engagement Team Discussion

49. Respondents supported to the revisions proposed in paragraph 29 of ED-240 requiring the engagement team to discuss the entity’s culture, management’s commitment to integrity and ethical value and related oversight by TCWG. They noted that the entity’s culture plays a crucial role in the prevention of fraud in the entity.
50. However, respondents suggested enhancements to paragraph 29 of ED-240 to further strengthen the engagement team discussion, refocus the engagement team discussion on fraud related matters and ultimately strengthen the overall audit process. Respondents’ suggestions include elevating certain topics from application material to the requirement or adding matters for discussion in the requirement, such as:
- (a) The presumption of the ROMMs due to fraud in revenue recognition;
 - (b) Risks of management override of controls;
 - (c) Considerations of circumstances that might be indicative of manipulation of earnings or of other financial measures;
 - (d) The importance of maintaining professional skepticism; and
 - (e) How the auditor might respond to the susceptibility of the entity’s financial statements to material

misstatement due to fraud.

51. Respondents also noted that the presentation of the requirement in paragraph 29 of ED-240 gives the impression that the proposed standard only requires the engagement team to have one team-wide discussion. To reinforce the iterative and dynamic nature of the risk identification and assessment process, respondents suggested that the engagement partner should determine if further discussion(s) among engagement team members and other experts are warranted at other times during the audit. This can be facilitated by:
- (a) Adding a new requirement in ED-240 to reassess the need for further engagement team discussion, either in the risk identification and assessment section or in the engagement performance section;
 - (b) Expanding on the application material in paragraph A38 of ED-240 to include examples of circumstances that may trigger the need for further engagement team discussions (e.g., fraud risk factors that were not covered in the original discussion, actual or suspected fraud, etc.) and link the paragraph to paragraph 29 of ED-240.

Whistleblower Program

52. Respondents encouraged the IAASB to elevate the application material included in paragraph A70 of ED-240 to a conditional requirement. Respondents noted that the whistleblower program plays an important role in identifying fraud, with 43% of occupational frauds detected by tips.⁸
53. On the other hand, other respondents were concerned that the introduction of a conditional requirement may prompt auditors to inappropriately conclude that the absence of a whistleblower program is in all cases a control deficiency. These respondents favored the current proposed approach in ED-240 of referring to the usefulness of obtaining an understanding of the whistleblower program in application material but not requiring auditors to obtain that understanding.

Management Override of Controls

54. Respondents encouraged the IAASB to clarify whether the significant risk related to management override of controls exist at the financial statement level or at the assertion level for classes of transactions, account balances and disclosures. Respondents were of the view that it may be challenging in practice to distinguish between a specific risk of management override of controls and the risk of management override at the financial statement level.

Other Matters

55. Furthermore, respondents provided the following comments on the revisions proposed in ED-240 to make the auditor's risk identification and assessment process as it relates to fraud more robust:
- (a) Information from other sources. Respondents commented on the lack of clarity in the linkage between paragraphs 27, A45 and A46 of ED-240 and the foundational requirements in ISA 315 (Revised 2019).
 - (b) Analytical procedures performed and unusual or unexpected relationships identified. A respondent encouraged the IAASB to include additional examples to further explain how the analytical

⁸ Refer to the report from the Association of Certified Fraud Examiners, [Occupational Fraud 2024: A Report to the Nations](#)

procedures performed during planning may be helpful in identifying ROMMs due to fraud.

- (c) Understanding the entity and its environment, and the applicable financial reporting framework.
 - (i) Respondents highlighted the importance for the auditor to understand the business model, the business rationale of unusual transactions and to identify unnecessarily complex entities structures, as these enable the auditor to understand whether and where third-party relationships may exist and identify fraud risk factors.
 - (ii) Respondents also suggested to enhance the application material related to paragraph 33(a)(ii) of ED-240 by explaining why the industry may affect the likelihood of fraud risk factors and adding regulatory environment examples.
 - (iii) A respondent suggested to enhance the standard by including additional application material specific to the public sector, given some of the unique characteristics of the public sector.
- (d) Understanding the components of the entity’s system of internal control. Respondents provided comments on this section, including:
 - (i) Highlighting that the importance for the auditor to conduct appropriate fraud inquiries, including identifying the right individuals to inquiry with and the way of conducting such inquiries. Respondents encouraged the IAASB to provide examples and guidance on how to perform such inquiries and why (i.e., the fraud inquiries should be conducted in person as this allows the auditor to observe the body language of the interviewee, encourages a two-way dialog and provides the auditor with the opportunity of asking probing and clarifying questions).
 - (ii) Noting that the requirement included in paragraph 38 of ED-240 relating to control activities should clarify that the ROMMs due to fraud may be at the financial statement level also, and, as they are deemed significant risk, the auditor shall evaluate the design and implementation of the controls.
 - (iii) Noting that some application material implies an expectation of a separate risk assessment process for fraud and error, which may not be the case in all entities. Respondents suggested some edits to the application material related in paragraph 35 of ED-240 to mitigate the issue.

The Fraud TF’s Views and Recommendations

<i>Relevant Paragraphs in Agenda Item 8-A:</i>	<i>Para’s. 18, 26, 27, 29-36, 38-42, 70(d) and A22, A44-A46, A48-A94, A98-A113</i>
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56. The Fraud TF acknowledges the support in the written responses for the enhancements proposed by the IAASB to make the risk identification and assessment process as it relates to fraud more robust. Regarding the feedback detailed in paragraphs 36–55 above, the Fraud TF has the following views and recommendations relating to each of the topical areas as follows.

Approach to Integrating the Fraud Lens to the Foundational Requirements in ISA 315 (Revised 2019)

57. The Fraud TF recognizes the concern raised by respondents with regard to the approach taken to integrate the fraud lens to the foundational requirements in ISA 315 (Revised 2019). When considering the feedback, the Fraud TF noted the intention of the IAASB, as explained in paragraphs 37 to 39 of the EM accompanying ED-240, and the relationship between ISA 240 and the other ISAs described in the

non-authoritative guidance on fraud in an audit of financial statements.⁹

58. The Fraud TF concluded that the approach taken in ED-240 remains appropriate. However, the Fraud TF clarified the intention about applying the fraud lens to other ISAs (see paragraph 1 of **Agenda Item 8-A**).
59. In addition, the Fraud TF performed a detailed analysis of the requirements included in ED-240 compared with their foundational requirements. The Fraud TF concluded that most requirements included in ED-240 were not duplicative and were included to provide the fraud lens to the foundational requirement. However, the Fraud TF agrees that in a few instances, the requirements were repeating the foundational standard and suggests streamlining these paragraphs (see paragraphs 26, 30 and 33 of **Agenda Item 8-A**).

Evaluation of Fraud Risk Factors and Identifying and Assessing the ROMMs due to Fraud

60. The Fraud TF agrees with proposals to relocate paragraph 32 to the end of the risk assessment procedures and related activities section in paragraph 39A of **Agenda Item 8-A**. This reflects that auditors will identify fraud risk factors while performing risk assessment procedures and accordingly is a logical location for the requirement.
61. The Fraud TF also acknowledges the confusion with regard to the relationship between fraud risk factors and the concept of inherent risk factors in ISA 315 (Revised 2019). The Fraud TF is of the view that fraud risk factors are essentially inherent risk and control risk factors and are not a subset of inherent risk factors. The Fraud TF agrees that the standard could further clarify the relationship and is proposing updates to paragraph A22 of **Agenda Item 8-A**.
62. Finally, the Fraud TF further aligned the definition of fraud risk factors, requirements, application material and appendices to limit any potential confusion as highlighted by certain respondents (see paragraphs 18(b) and A22 of **Agenda Item 8-A**).
63. The Fraud TF acknowledges respondents' feedback with respect to the spectrum of inherent risk, however, is of the view that the requirement to treat all ROMMs due to fraud as significant risk remains appropriate and does not suggest any further changes.

Presumption of the ROMMs Due to Fraud in Revenue Recognition

64. The Fraud TF noted the support for the enhancements made to paragraph 27 of extant ISA 240 (paragraph 41 of ED-240). In response to the respondents' feedback, the Fraud TF:
 - (a) Acknowledges the respondents' concerns regarding the relevance of the presumption of ROMMs due to fraud in revenue recognition for certain entities and agrees that the ROMMs due to fraud may reside in different classes of transactions, account balances and disclosures. The Fraud TF notes that the new application material in paragraph A104 of ED-240 responds to these concerns. However, the Fraud TF agrees that ED-240 could be enhanced and suggests adding further additional public sector specific application material.
 - (b) Acknowledges the concerns and suggestions provided by respondents as highlighted in paragraph 47 above. However, the Fraud TF notes:

⁹ Non-Authoritative Guidance on Fraud in an Audit of Financial Statements, [The Fraud Lens – Interactions Between ISA 240 and Other ISAs](#)

- (i) The concerns related to the auditor limiting the identification of the ROMMs due to fraud in revenue recognition to manual journal entries and the cut-off assertion is a ‘performance’ issue. ED-240 is clear enough that auditors need to carefully identify and assess the unique ROMMs due to fraud in revenue recognition that apply in the circumstances, without addressing a specific circumstance in the auditing standard.
- (ii) Key Issue 25.B.15 in the Project Proposal includes a proposal to clarify when it is inappropriate to rebut the presumption of risks of fraud in revenue recognition. That standard setting action was prompted to address concerns by audit regulators that ISA 240 should be enhanced to illicit a more “consistent and correct application of the rebuttal presumption”. The use of the word “ordinarily” accomplishes that objective and does not preclude a rebuttal if, based on the auditor’s professional judgment, the identified fraud risk factors do not indicate a ROMM due to fraud in revenue recognition.
- (iii) The examples provided in paragraphs A109 and A111 of ED-240 are appropriate as they highlight how fraud risk factors relating to the types of revenue, revenue transactions, or relevant assertions can lead to an appropriate identification and assessment of ROMMs due to fraud. The examples also provide appropriate guidance of when it could be appropriate to rebut the presumption of ROMMs due to fraud in revenue recognition. However, the Fraud TF acknowledges that the examples provided in paragraph A111 could be enhanced by incorporating the fraud triangle concepts and is proposing some modifications to paragraph A111 of **Agenda Item 8-A**.

65. With regard to suggestions by respondents on the documentation requirement related to the presumption of ROMMs due to fraud in revenue recognition, the Fraud TF is of the view that the requirement in paragraph 70(c) of ED-240 already requires the auditor to document their identification and assessment of ROMMs due to fraud at the financial statement level and at the assertion level, which includes the ROMMs due to fraud in revenue recognition. The Fraud TF is also of the view that the requirement in paragraph 70(d) of ED-240 is not an encouragement for auditor to rebut the presumption of ROMMs due to fraud in revenue recognition and that the application material sufficiently explain that the rebuttal would only be in limited circumstances. Therefore, the Fraud TF does not suggest any further changes.

Engagement Team Discussion

- 66. The Fraud TF agrees with respondents’ views that the requirement can be strengthened by including additional matters to be discussed among the engagement team members and proposes to include discussions on the presumption of the ROMMs due to fraud in revenue recognition, the risks of management override of controls and considerations of circumstances that might be indicative of manipulation of earnings or other financial measures. As noted by respondents, these matters are often discussed in practice and bringing them into the requirement will promote consistency in practice.
- 67. However, the Fraud TF did not propose revisions with regard to the importance of maintaining professional skepticism and how the auditor might respond to the susceptibility of the entity’s financial statements to material misstatement due to fraud. The Fraud TF noted that these points were included in application material A48 to A53 of ED-240 to the engagement team discussion. The Fraud TF notes that the approach taken in ED-240 is consistent with how these matters are addressed in ISA 315 (Revised 2019).
- 68. The Fraud TF acknowledges respondents’ suggestion to remind auditors about the iterative nature

of the risk identification and assessment process. However, the Fraud TF is of the view that the standard should not include an additional requirement for subsequent engagement team discussion, even if conditional, for new findings from the engagement team. The Fraud TF rationale is that having a requirement for a subsequent engagement team discussion may be seen as implying that multiple engagement team discussions are required and have the unintended consequence for additional documentation. In addition, the Fraud TF notes that paragraph A38 of ED-240 already provides guidance on when it may be appropriate to increase the extent and frequency of the engagement team discussions as part of the direction, supervision and review. The Fraud TF proposes to add a reference to paragraph A38 in paragraph 29 of **Agenda Item 8-A** to respond to respondents' suggestion to add clarity on the iterative process.

Whistleblower Program

69. The Fraud TF recognizes the importance of the whistleblower program in an entity and noted that ED-240 proposed new application material regarding such programs. Although the application material did not require auditors to obtain an understanding of an entity's whistleblower program, the Fraud TF notes that the application material does advise auditors that obtaining an understanding of the whistleblower program may be useful in identifying ROMMs due to fraud.
70. The Fraud TF agrees that the addition of a conditional requirement to obtain an understanding of the control environment regarding the whistleblower program, if such program exists, will lead to a more robust risk identification and assessment. The Fraud TF proposes modifications in paragraph 34 of **Agenda Item 8-A** to that effect.

Management Override of Controls

71. The Fraud TF acknowledges that respondents raised concerns around the assessment of the ROMM due to fraud related to management override of controls and agrees that Proposed ISA 240 (Revised) can be clarified. However, the Fraud TF is of the view that a financial statement level risk cannot be a significant risk as that is inconsistent with ISA 315 (Revised 2019). According to ISA 315 (Revised 2019) a significant risk only relates to a ROMM at the assertion level (see paragraph 32 of ISA 315 (Revised 2019)). When a financial statement level risk is identified, the auditor is required (see paragraph 30(a) of ISA 315 (Revised 2019)) to determine whether the risk affects the assessment of risks at the assertion level and, if so, the auditor shall determine whether any of the assessed ROMMs at the assertion level are significant risks (which they always are if the risk relates to a ROMM due to fraud).
72. To address respondents' concerns, the Fraud TF proposes some modifications to paragraph 40 of **Agenda Item 8-A** to clarify the auditor's requirements related to the identification and assessment of ROMMs due to fraud. The Fraud TF will assess after the September 2024 Board meeting if revisions to paragraph 42 of ED-240 could further clarify the intent of the requirement.

Other Matters from the Feedback

73. The Fraud TF also considered respondents' comments to the other matters and notes:
 - (a) Information from Other Sources. The Fraud TF believes that the linkage between ISA 315 (Revised 2019) is established by the phrase "in accordance with paragraphs 15 and 16 of ISA 315 (Revised 2019)" in paragraph A45 of ED-240. Therefore, the Fraud TF does not believe that the other sources of information need to be duplicated in ED-240.
 - (b) Analytical procedures performed and unusual or unexpected relationships identified. The Fraud TF

agreed with the respondents’ suggestion to include additional examples (see paragraph A54 of **Agenda Item 8-A**)

- (c) Understanding the entity and its environment, and the applicable financial reporting framework. The Fraud TF agreed with the respondents’ suggestions and proposed modifications to paragraphs 33, A63 and A66A of **Agenda Item 8-A**.
- (d) Understanding the components of the entity’s system of internal control. The Fraud TF agreed that the proposed modifications will strengthen the requirements and application material, leading to a more robust risk identification and assessment. In particular, the Fraud TF proposed:
 - (i) Adding application material explaining how inquiries may be conducted in an audit (see paragraph A91A of **Agenda Item 8-A**)
 - (ii) Rewording Paragraphs A68 to A94 of **Agenda Item 8-A** to focus on the entity’s risk assessment process and limit the confusion around the implied expectation of an entity’s separate risk assessment process for fraud.

However, the Fraud TF is of the view that paragraph 38 of ED-240 is clear and that the requirement for the auditor to evaluate the design and implementation of the controls is correctly located in paragraph 40 of ED-240.

Matters for Board Consideration:

- 3. The Board is asked for its views in relation to the matters discussed above for the Risk Identification and Assessment, following the proposed order:

Section	Paragraphs in Agenda Item 8-A
Introduction and Definition Fraud Risk Factors	1, 18(b) and A22
Risk Assessment Procedures and Related Activities	26, 27, 29–31, A44–A46, A48–A54
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control	33–36, 38–39A, A59–A96, A98–A103D
Identifying and Assessing the ROMM	40–42, A104–A113

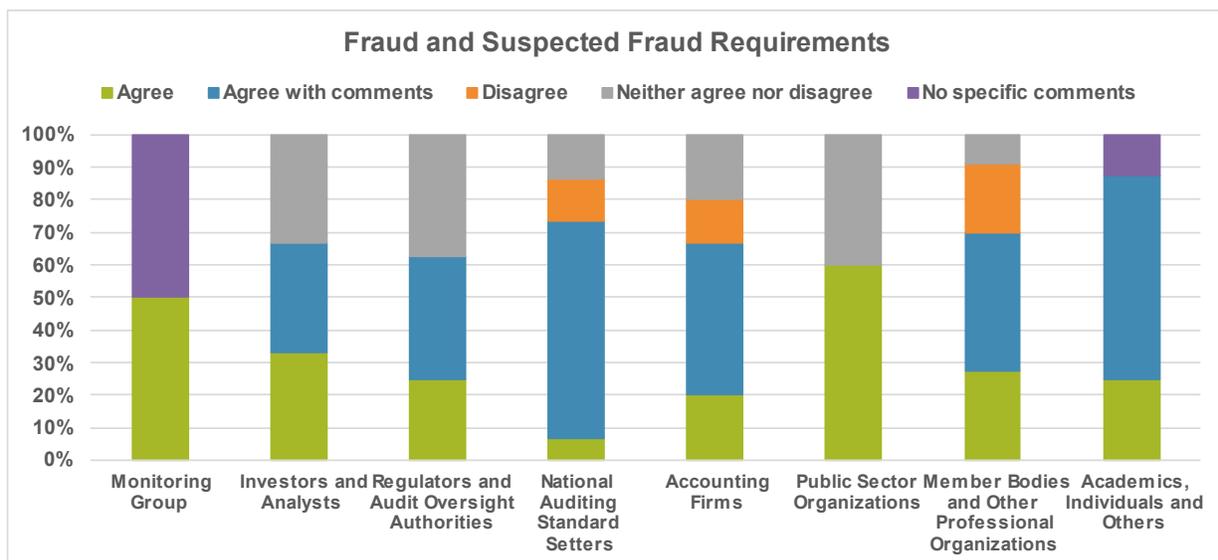
Section III – Fraud or Suspected Fraud

Highlights from Respondents’ Feedback

- There was widespread support for the IAASB’s proposals that aim to enhance clarity of the auditor’s response to fraud or suspected fraud identified during the audit.
- Most of the enhancements proposed by respondents related to introducing additional scalability and proportionality to the fraud or suspected fraud requirements.
- Key suggestions included:
 - Bifurcating the requirement in paragraph 55 of ED-240 into two separate requirements where the auditor first obtains an understanding of all fraud or suspected fraud identified during the audit (as per paragraph 55(a)) and only performs the rest of the sub-requirements in paragraph 55 (i.e., 55(b)–(d)) to those instances that the fraud or suspected fraud has been determined to be clearly inconsequential.
 - Changing the construct in paragraph 56 of ED-240 from requiring the engagement partner to make the determinations to “taking responsibility” for those determinations.
 - Combining the requirements in paragraphs 58 and 59 because they deal with similar matters (i.e., impact on the audit and the auditor’s report).
 - Aligning the requirements related to communicating fraud or suspected fraud with TCWG in paragraphs 66 and 67 of ED-240 with other ISAs.

Overview of Responses

74. Question 4 asked respondents whether they believe ED-240 establishes robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit.
75. The chart below shows an analysis of the responses to question 4 per stakeholder group (see the separate NVivo reports in **Agenda Items 8-B.3 and 8-C.3** for further details).



Respondents' Comments

Monitoring Group Respondents

76. One MG respondent expressed support of the IAASB's proposals in ED-240 to establish robust work effort requirements and application material to address circumstances when fraud or suspected fraud are identified in the audit.

Other Respondents

77. The areas where a significant proportion of respondents felt there were opportunities to further enhance the fraud or suspected fraud requirements across all response categories (e.g., agree with comments, neither agree nor disagree, and disagree with comments) were as follows:

Scalability and Proportionality of Treating Allegations of Fraud as Suspected Fraud

- (a) Although respondents generally agreed with the IAASB's proposal (see paragraphs 7 and A10 of ED-240) that auditors treat allegations of fraud that come to the auditor's attention as suspected fraud (i.e., for the purpose of applying the fraud or suspected fraud requirements in paragraphs 55–59 of ED-240), they were concerned about the practical challenges this creates for the auditor.
- (b) Respondents noted that requiring the auditor to perform the fraud or suspected fraud requirements for all identified allegations of fraud may not be practicable in all audits. They noted, for example, that auditors engaged in group audits of larger entities may identify a large number of allegations of fraud affecting several of each group's components and respondents did not believe ED-240 is clear enough about what the work effort is for auditors to address those allegations, particularly where those allegations have been determined to be without merit by the entity (e.g., by the entity's whistleblower program).

Scalability and Proportionality of the Requirement in Paragraph 55 of ED-240

- (c) Respondents also noted concerns about the scalability and proportionality of the requirement for the auditor to obtain an understanding of all instances of identified fraud or suspected fraud. Specifically, they believe that it may not be practicable for the auditor to apply all the sub-requirements in paragraph 55 of ED-240 (i.e., 55(a)–(d)) to all such instances of fraud or suspected frauds, particularly when there are a large number of instances of identified fraud or suspected fraud that are determined by the auditor to be clearly inconsequential.
- (d) To address the scalability and proportionality issue in paragraph 55 of ED-240, respondents recommended that the requirement be bifurcated into two separate requirements:
- A requirement that requires the auditor to make inquiries of management and, where appropriate, TCWG, to obtain an understanding of all fraud or suspected fraud, including allegations of fraud, identified in the audit. This understanding could then be used to exclude from any further consideration instances of fraud or suspected fraud that the auditor evaluates to be clearly inconsequential; and
 - A second requirement that requires the auditor to apply the sub-requirements in paragraphs 55(b)–(d) of ED-240 to instances of fraud or suspected fraud that have not been determined to be clearly inconsequential.

Request for Additional Application Material related to Paragraph 55

- (e) Regarding the appropriate level of management to whom the auditor direct inquiries for paragraph 55(a) of ED-240, respondents noted that the requirement is not always practicable and could pose challenges to auditors of small and medium sized enterprises (SMEs). Specifically, they noted that it isn't always possible to perform inquiries of management that is "at least one level above those involved" particularly in SMEs with relatively flat management structures where no level of management is above those suspected of being involved in the fraud or suspected fraud. These respondents suggested the IAASB provide guidance to deal with these types of circumstances.
- (f) Regarding the requirements in paragraphs 55(b)–(c) of ED-240, respondents asked the IAASB to provide more application material to further clarify how the auditor should evaluate the sufficiency of the entity's process to investigate and remediate instances of fraud or suspected fraud and related implications on the audit including application material which deals with:
- How to evaluate the sufficiency of an investigation process, including (i) when an independent investigation would be expected versus an internal investigation and (ii) consideration of objectivity and competence of those investigating the matter.
 - How to evaluate the sufficiency of remedial action designed and implemented by the entity.

Other Matters Regarding Paragraph 55(d)

- (g) Respondents expressed concerns that information gathered through paragraphs 55(a)–(c) of ED-240 might be insufficient for the auditor to determine whether control deficiencies exist as required by paragraph 55(d). They were also concerned that the term "determine" could mislead users of financial statements into believing the auditor has tested the operating effectiveness of controls, even when the auditor's audit plan did not involve relying on internal controls. To address the concerns, respondents recommended that the Board either change the verb "determine" to "consider" in paragraph 55(d) or move the sub-requirement to appear later in the fraud or suspected fraud requirements.

Scalability and Proportionality of Paragraph 56

- (h) Respondents expressed concerns about the scalability and proportionality of requiring the engagement partner to be directly responsible for making the determinations in paragraph 56 of ED-240. In their view, it is impracticable for a group engagement partner, for example, to directly make the determinations within the context of a large group audit where there could be a significant number of instances of fraud or suspect fraud identified by component auditors. In this scenario, they noted that the group engagement partner might need to obtain assistance from the component auditor to perform some of the procedures described in paragraph 56 of ED-240. Respondents recommended that it would be more practicable, particularly in group audits, to require the engagement partner to "take responsibility for" ¹⁰ those determinations rather than requiring engagement partners to make those determinations themselves.

¹⁰ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 9.

- (i) Regarding paragraph 56(b), respondents commented that ED-240 is not clear about (i) the timeframe for considering the impact on engagements from prior years and (ii) the nature and extent of other types of engagements that need to be considered to comply with this requirement. It was also noted that ISA 510¹¹ does not have similar requirements and some jurisdictions do not permit restatement of financial statements. Respondents asked the IAASB to provide guidance to clarify these matters while others recommended that the requirement be removed altogether.

Combining the Requirements in Paragraphs 58 and 59

- (j) A respondent noted that paragraphs 58 and 59 of ED-240 should be combined because both requirements deal with the implications of misstatements due to fraud on the audit, including the auditor’s report.

Consistency of the Communication Requirements in Paragraphs 67 and 68 with other ISAs

- (k) A respondent noted that the requirement in paragraph 67 of ED-240 is inconsistent with other ISAs as it limits communication of fraud or suspected fraud with TCWG to only those instances that have been committed by certain individuals (management, employees who have significant roles in internal control or others) and only when fraud or suspected fraud causes a material misstatement. Specifically, the inconsistency with other ISAs relates to the following:
- Paragraph 23 of ISA 250 requires communication of non-compliance with laws and regulations (NOCLAR) with TCWG unless the matters are “clearly inconsequential.” Because instances of fraud or suspected fraud are also NOCLAR (see paragraph 14 in ED-240), the respondent noted that the inconsistency could be resolved by requiring auditors to communicate all instances of fraud or suspected fraud, regardless of who perpetrated the fraud or suspected fraud, except for those that are clearly inconsequential.
 - The conforming amendment proposed in ED-240 to paragraph 40(ii) of ISA 700 (Revised) which requires the auditor to disclose in the auditor’s report that the auditor has communicated (all) identified fraud or suspected fraud to TCWG. The respondent noted that the conforming amendment needs to be revised to remove the inconsistency.

The Fraud TF’s Views and Recommendations

<i>Relevant Paragraphs in Agenda Item 8-A:</i>	<i>Paras 55-59, 66–69 and A7-A10, A29, A144–A145, A146-A157, A182-A192</i>
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78. The Fraud TF acknowledges the support in the written responses for the revisions proposed by the IAASB to enhance clarity of the auditor’s response to fraud or suspected fraud identified during the audit. Regarding the feedback detailed in paragraphs 76–77(a)–(k) above, the Fraud TF has the following views and recommendations relating to each of the topical areas as set out below:

¹¹ ISA 510, *Initial Audit Engagements —Opening Balances*

Scalability and Proportionality of Treating Allegations of Fraud as Suspected Fraud

79. The Fraud TF acknowledges the concerns regarding the work effort that arises from treating allegations of fraud that come to the auditor's attention as suspected fraud under ED-240 (see paragraphs 77(a)–(b) above).
80. The Fraud TF recognizes that not all allegations of fraud, including those communicated to the entity through the entity's whistleblower program, have merit and agrees with respondents that it may not be practicable to require auditors to apply all fraud or suspected fraud requirements in every case. The Fraud TF believes that the auditor cannot be expected to follow up on all allegations of fraud, particularly when, for example, the entity has a good process for determining which allegations deserve to be investigated further.
81. The Fraud TF discussed different alternatives to address respondents' concerns:
- **Alternative 1:** Remove the equation in paragraph 7 (and paragraph A10) in ED-240 between allegations of fraud that come to the auditor's attention and suspected fraud. This change would mean that not all allegations of fraud brought to the auditor's attention would automatically trigger the fraud or suspected fraud requirements in paragraphs 55–59 in **Agenda Item 8-A**. The Fraud TF acknowledges, however, that respondents did not generally oppose equating allegations of fraud with suspected fraud in ED-240 (i.e., for the purpose of applying the fraud or suspected fraud requirements in paragraphs 55–59 in ED-240) and removing this connection could exacerbate concerns about a lack of clarity in how auditors should respond to identified instances of fraud or suspected fraud, including allegations of fraud.
 - **Alternative 2:** Retain the approach that equates allegations of fraud with suspected fraud but address respondents' concerns by integrating additional scalability and proportionality in the fraud or suspected fraud requirements to respond to those allegations. Specifically, the Fraud TF has proposed changes to the fraud or suspected fraud requirements (as described in paragraph 82 below) which allows the auditor to exclude from further consideration instances of fraud or suspected fraud that have been determined to be clearly inconsequential, including allegations of fraud that are spurious or otherwise lack merit.

The Fraud TF believes that the application material relating to paragraphs 55(b)–(c) in **Agenda Item 8-A** helps the auditor understand the entity's process for dealing with allegations of fraud that have been progressed for further investigation. However, the Fraud TF is also considering whether to add application material relating to paragraph 55(a) of ED-240 for the auditor to consider inquiring about how the entity disposes of allegations of fraud determined to be without merit. This additional application material could also specify that the auditor may leverage the understanding obtained of the entity's whistleblower program, including how TCWG have responded to allegations of fraud (See paragraphs 34(aA), 34(d)(iA) and A70 in **Agenda Item 8-A**) to determine which allegations of fraud lack merit and are accordingly clearly inconsequential.

The Fraud TF deliberated both alternatives and recommends proceeding with alternative 2 even though both alternatives are reasonable. Alternative 2 preserves the Board's position when it approved ED-240 and has also appropriately addressed respondents' concerns.

Scalability and Proportionality of the Requirement in Paragraph 55 of ED-240

82. Regarding the recommendation by respondents to bifurcate paragraph 55 in ED-240, the Fraud TF does not propose to adopt the recommendation described in paragraph 77(d) above. Specifically, the

Fraud TF does not believe that inquiry alone would provide a sufficient basis for the auditor to determine that a fraud or suspected fraud is clearly inconsequential. Nevertheless, the Fraud TF agrees that additional scalability and proportionality can be introduced in the fraud or suspected fraud requirements by limiting the remaining requirements in paragraphs 56–59 in ED-240 to only those instances of fraud or suspected fraud that are determined not to be clearly inconsequential based on the understanding obtained by performing procedures in accordance with paragraph 55 (see the revision proposed to the lead-in sentence of paragraph 56 of **Agenda Item 8-A**).

83. Regarding the feedback from respondents about the potential challenges of making inquiries with a level of management that is at least one level above those involved in fraud or suspected fraud, the Fraud TF believes that the determination of which level of management is appropriate is a matter of professional judgement. The Fraud TF proposes to add paragraph A145A of **Agenda Item 8-A** that provides guidance on this matter.
84. Regarding the recommendation that the IAASB should change the verb “determine” to “consider” in paragraph 55(d) of ED-240, the Fraud TF considered the CUSP Drafting Principles and Guidelines and believes that “determine” is suitable in the context. The Fraud TF notes that it is not necessary to have a control-based audit approach to identify control deficiencies during the audit. Internal control deficiencies relating to fraud may be identified while performing risk assessment procedures or while evaluating the entity’s process to investigate and remediate fraud or suspected fraud. Nevertheless, the Fraud TF agrees with respondents that the auditor may not have a sufficient basis to determine whether control deficiencies exist based on the understanding obtained to comply with paragraph 55 and accordingly proposes to move to the requirement to appear later in the fraud or suspected fraud requirements (see paragraph 57(aA) of **Agenda Item 8-A**).
85. Regarding feedback that the application material relating to paragraph 55 of ED-240 should be enhanced, the Fraud TF proposes to add application material which deals with how the auditor determines which level of management inquiries should be directed to and how to evaluate the entity’s investigation process and remediation measures (see paragraphs A145A and A149 of **Agenda Item 8-A**).

Responsibilities of Engagement Partner in Paragraph 56

86. Regarding the recommendation that the engagement partner ‘take responsibility’ for making the determinations in paragraph 56 of ED-240, the Fraud TF continues to believe that these determinations should be made by the engagement partner due to the importance of appropriately assessing the impact of fraud or suspected fraud on the audit. The Fraud TF continues to believe that this requirement is scalable and proportional and reiterates that it is appropriate for the engagement partner to use information obtained by other members of the engagement team, including component auditors in the case of a group audit, to make these determinations.

Impact on Prior Year Audit Engagements

87. The Fraud TF acknowledges that paragraph 56(b) in ED-240 could be clearer in terms of what the auditor is required to consider regarding the impact of fraud or suspected fraud on other engagements. The Fraud TF proposes to streamline the requirement by requiring the auditor to consider the impact of the fraud or suspected fraud identified during the current year audit on prior period audits, if applicable (see paragraph 56(b) of **Agenda Item 8-A**).

Combining the Requirements in paragraphs 58 and 59

88. The Fraud TF agrees with the proposal to combine the requirements in paragraph 58 and 59 of ED-240 because both relate to the impact on the audit and the auditor's report (see paragraph 58 of **Agenda Item 8-A**).

Consistency of requirements in paragraphs 67 and 68 of ED-240 regarding communication with management and TCWG with other ISAs

89. The Fraud TF agrees with respondents that the requirement in paragraph 67 of ED-240 is inconsistent with requirements in other standards as described in paragraph 77(k) above. The Fraud TF also agrees that introducing the threshold for communicating matters that are not considered to be clearly inconsequential in paragraph 67 eliminates those inconsistencies and helps to introduce additional scalability and proportionality to the requirement (see paragraph 67 of **Agenda Item 8-A**). As a consequence of adopting the threshold "clearly inconsequential" in paragraph 67 of ED-240, the Fraud TF also proposes conforming amendments in paragraph 40(a)(ii) of ISA 700 (Revised) as well as conforming amendments to the illustrative auditor's reports and illustrative representation letters that are affected.

Matters for Board Consideration:

4. The Board is asked for its views on the Fraud TF recommendations and changes discussed above and reflected in **Agenda Item 8-A** to address matters relevant to fraud or suspected fraud. In particular:
- (a) Does the Board agree with the Fraud TF's views and recommendations in this section?
 - (b) Which of the two alternatives described in paragraph 81 above which deals with allegations of fraud is preferred by the Board? (Refer to the following paragraphs in **Agenda Item 8-A**: 7, 34(aA), 34(d)(iA), 55(a)–(c), A10, A70, A149)
 - (c) Are there any other matters that should be considered and addressed by the Fraud TF relating to the fraud or suspected fraud requirements in response to the feedback?

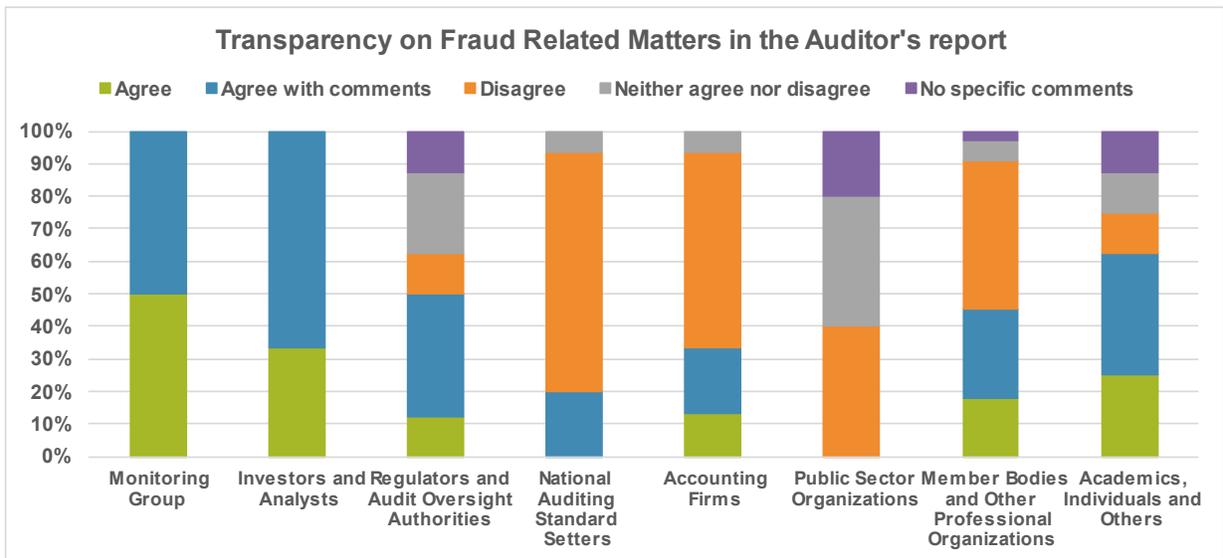
Section IV – Transparency on Fraud-Related Responsibilities and Procedures in the Auditor’s Report

Highlights from Respondents’ Feedback

- Support for the need to enhance transparency about matters related to fraud in the auditor’s report.
- Mixed views on how to operationalize the approach in the standard and in the auditor’s report especially related to:
 - Placement of requirements: Proposed ISA 240 (Revised) or ISA 701¹².
 - Placement of fraud matters in the report: Key Audit Matters (KAM) section or specific fraud section.
 - Driving the auditor to communicate KAM related to fraud: Statement when there are no KAMs related to fraud to communicate and application material driving the communication of KAMs related to fraud.
 - Risk of boilerplate KAM.
 - Suspected fraud, on-going investigation and uncertain outcome.
 - Reference to fraud in KAM section heading and sub-headings.

Overview of Responses

90. Question 5 asked respondents if they agreed that ED-240 appropriately enhances transparency about matters related to fraud in the auditor’s report.
91. The chart below shows an analysis of the responses to question 5 per stakeholder group (see the separate NVivo reports in **Agenda Items 8-B.4 and 8-C.4** for further details).



¹² ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report

Respondents' Comments

Monitoring Group Respondents

92. Both MG respondents supported the approach taken to enhance transparency about matters related to fraud in the auditor's report by:
- (a) Building on the existing KAM filtering mechanism in ISA 701;
 - (b) Adding a fraud lens in ED-240; and
 - (c) Emphasizing the need to communicate entity-specific information in KAMs and discouraging the use of boilerplate language.
93. However, the MG respondents had different views on how the approach was operationalized. One MG respondent is supportive of all the requirements and application material as drafted in ED-240 to enhance transparency relating to fraud in the auditor's report. The other MG respondent suggested:
- (a) Strengthening the requirement to further drive an increase in communicating KAMs related to fraud in paragraph 61 of ED-240 by:
 - Adding an additional bullet stating that "Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance."
 - Elevating the application material that describes that "matters related to fraud are often matters that require significant auditor attention" and that matters related to fraud "would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters" to the requirement.
 - (b) Removing paragraph 64 of ED-240 because adding an explicit negative statement when no KAM related to fraud has been included in the auditor's report may:
 - Increase the expectation gap as users of the financial statements may infer a higher level of assurance than reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud.
 - Have unintended consequences when the auditor has identified a KAM but has not communicated the KAM because it meets the circumstances as described in ISA 701 paragraph 14.
 - (c) Removing "including matters related to fraud" from the proposed title in the auditor's report (Conforming and consequential amendments – ISA 701, paragraph 11).
 - (d) Developing educational material aimed at investors to provide information about the role and responsibilities of the auditor related to fraud, the requirements of the standard and KAMs to help address a potential expectation gap.

Other Respondents

94. Respondents who agreed with question 5 noted their support for:
- (a) The importance of transparency in the auditor's report related to fraud as it is in the public interest. Respondents agreed that the enhanced transparency in communicating matters related to fraud would improve stakeholders' understanding and trust. They also agreed that it would clarify the auditor's responsibilities and the extent of their efforts in identifying and addressing ROMMs due to fraud, thus strengthening the credibility of financial reporting.

- (b) The requirement in paragraph 64 of ED-240 for auditors to include a negative statement when there is no KAMs related to fraud to communicate.
95. The areas where a significant proportion of respondents had comments or had concerns (e.g., agree with comments, neither agree nor disagree, and disagree with comments) were as follows:

Placement of Requirements: Proposed ISA 240 (Revised) or ISA 701

- (a) Respondents that did not support the placements of fraud specific requirements related to KAMs in ED-240 noted that the requirements in ED-240 are duplicative of the requirements in ISA 701, particularly paragraphs 61–62 of ED-240. It was noted that there is a lack of clarity as to what is explicitly required in accordance with these paragraphs that is incremental to the requirements in ISA 701 and that these requirements may be interpreted as creating a parallel process for the determination of KAMs related to fraud. Respondents suggested that the proposed requirements in paragraphs 61–64 are not included within ED-240, as the requirements and related application material in ISA 701 are already fit for purpose. Instead, they suggested to include the requirements and application material introduced in ED-240 to act as an overlay to ISA 701 in respect of matters related to fraud (adding the fraud lens). Other respondents suggested that the existing KAMs mechanism in ISA 701 sufficiently covers matters related to fraud that were of most significance in the audit and that only limited enhancements to the existing application material in ISA 701 are needed.

Separate Fraud Section in The Auditor's Report

- (b) Respondents who commented on rather having a separate section for matters related to fraud in the auditor's report (similar to the separate section on going concern) had mixed views:
- On one hand, respondents were of the view that this would make the auditor's report clearer. This view is in line with the PIOB's view – the PIOB believes that a specific section would strengthen transparency and is in the public interest, whereas communicating matters related to fraud under the KAMs section may reduce the emphasis given to fraud.
 - On the other hand, others noted that the approach to communicate matters related to fraud within the KAMs section is more effective than adding a separate section, as they believe the use of a separate section can give rise to extensive boilerplate and high-level descriptions about the approach to fraud.

Driving the Auditor to Communicate KAMs Related to Fraud

Statement when there are no KAMs related to fraud to communicate

- (c) There are concerns about the statement introduced by paragraph 64 when there are no KAMs related to fraud to communicate. Respondents noted that this statement may:
- Widen the expectation gap by implying a higher level of assurance than reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud.
 - Be inconsistent when the auditor has identified a KAM but has not communicated the KAM because it meets the circumstances as described in ISA 701 paragraph 14.

- Lead auditors to include boilerplate KAMs to avoid making a statement that there are no KAMs related to fraud to communicate in the auditor's report which could diminish the significance of other KAMs.

Considering these concerns, respondents suggested removing paragraph 64 from ED-240.

Application material that drives auditors to communicate KAMs related to fraud

- (d) Respondents had various comments on the application material that are driving the auditor to communicate KAMs related to fraud in ED-240. This included comments on:
- (i) Paragraph A168. Respondents had mixed views on paragraph A168 in ED-240:
- Respondents believed this paragraph to imply that some fraud risks do not need significant auditor attention which they think sends the wrong signal to auditors. Therefore, they would like to see this paragraph removed from both ED 240 and ISA 701 (paragraph A21).
 - Respondents believed that the auditor will be compelled to include at least one KAM because of how paragraph A168 is worded.
- (ii) Paragraph A170: Respondents suggested to remove paragraph A170 from ED-240. They noted that paragraph A170:
- Implies that there should be at least one KAM related to fraud which contradicts with the definition of a KAM (those matters that, in the auditor's professional judgment, were of most significance).
 - Should be clarified that when a KAM related to fraud is communicated, it doesn't mean there is fraud or suspected fraud in the entity but that a ROMM due to fraud has been identified.
 - Contradicts with the consequential amendment to paragraph A21 of ISA 701.
- (iii) Paragraph A176: Respondents had mixed views related to paragraph A176 in ED-240:
- On the one hand, respondents noted that this paragraph should be strengthened as they are of the view that it would be "an exception" that fraud risks are not communicated as KAMs (instead of "rare" which was included in ED-240).
 - On the other hand, other respondents noted that there are many cases when matters related to fraud are not among those matters that were of most significance in the audit of financial statements of the current period. Paragraph A176 may be interpreted as being an implicit requirement to always include KAMs related to fraud.

Risk of Boilerplate KAMs

- (e) Respondents acknowledged the IAASB's effort to avoid KAMs related to fraud from becoming boilerplate. However, they were of the view that the requirements and application material in ED-240 will result in KAMs related to fraud to become boilerplate that are not meaningful for users of the auditor's report because:
- ED-240 can be interpreted as requiring the auditor to identify at least one KAM related to fraud to communicate in the auditor's report. Respondents were specifically concerned with language in paragraphs A170 and A176 of ED-240.

- To avoid adding the sentence from paragraph 64 when no fraud KAM is communicated, the auditor may communicate one boilerplate KAM.
 - Paragraphs A173 of ED-240 may be interpreted to always communicate the presumed ROMMs due to fraud (revenue recognition and management override of controls) in KAMs related to fraud. Respondents are of the view that ED-240 should have made it clear that the presumed ROMMs due to fraud would only be expected to be communicated when there are engagement specific circumstances.
 - The communication of the same KAMs related to fraud year over year will lead to the use of generic language.
- (f) Respondents also suggested considering making amendments to application material to clarify that descriptions of KAMs are not intended to be boilerplate and need sufficient details and adding illustrative examples of KAMs that have a fraud element.

Suspected Fraud, On-going Investigation and Uncertain Outcome

- (g) Respondents disagreed with the inclusion of suspected fraud as one of the matters the auditor should take into account when determining those matters that required significant auditor attention in performing the audit (paragraph 61(d) of ED-240). They noted that:
- When investigations are ongoing, or the outcome of a suspected fraud is uncertain, it may be difficult to determine what to communicate and how to communicate it as it may have unintended legal consequences.
 - The legal determination whether there is fraud should be made by appropriate authorities and should therefore not be communicated by the auditor.
 - There is a risk of including original information if the entity hasn't disclosed the suspected fraud in the financial statement.

Reference to Fraud in KAMs Section Heading and Sub-Headings

- (h) Respondents disagreed with conforming amendments to ISA 701 paragraph 11 to rename the KAMs section from "Key Audit Matters" to "Key Audit Matters Including Matters Related To Fraud" because:
- It gives prominence to the auditor's consideration of fraud matters but does not reflect other important matters an auditor considers as part of their determination of KAMs. Therefore, it may detract users from non-fraud KAMs that are potentially more important than a KAM related to fraud.
 - It can be interpreted as requiring the auditor to identify at least one KAM related to fraud to communicate in the auditor's report.
- (i) Respondents also noted the requirement to use an appropriate subheading that clearly describes that the matter relates to fraud (paragraph 63 of ED-240) is not necessary as:
- It gives matters related to fraud more prominence and may detract from KAMs not related to fraud.
 - It is rare for a KAM to deal only with fraud and that it is more likely that KAM will contain both elements of fraud and error.

Other Matters

- (j) In addition, respondents had concerns about including significant deficiencies in internal control relevant to the prevention and detection of fraud in paragraph 61 of ED-240. They noted that communicating internal control deficiencies as a KAM may place the auditor in a position to disclose original information and it will give prevalence to fraud related deficiencies in internal control over other deficiencies in internal control that can be more pervasive.

Fraud TF Views and Recommendations

Relevant Paragraphs in Agenda Item 8-A:	Para's. 61-64 and A162–A179
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96. The Fraud TF acknowledges the support in the written responses for the revisions proposed by the IAASB to enhance transparency in the auditor's report. Regarding the feedback detailed in paragraphs 92–95 (j) above, the Fraud TF has the following views and recommendations relating to each of the topical areas as set out below:

Placements of Requirements: Proposed ISA 240 (Revised) or ISA 701

97. The Fraud TF discussed respondents' comments on the placement of the requirements related to enhance transparency in the auditor's report and in particular the two alternative options respondents suggested:
- Alternative 1: Include all requirements related to communicating KAMs related to fraud in ISA 701; and
 - Alternative 2: No need to include additional requirements related to communicating KAMs related to fraud in the ISAs as ISA 701 sufficiently addresses this.
98. On alternative 1, the Fraud TF noted that this alternative may not result in more transparency in the auditor's report as the focus on KAMs related to fraud will be less prominent in ISA 701. Also, this approach would be inconsistent with the approach taken in ED-240. Paragraph 1 of ED-240 states that "The requirements and guidance in this ISA expand on the application of other relevant ISAs..." Including fraud related requirements in ISA 701 would be inconsistent with this approach. Therefore, the Fraud TF is of the view that this alternative should not be pursued.
99. On alternative 2, the fraud TF believes that this alternative will not enhance transparency regarding matters related to fraud in the auditor's report and that this option does not take into consideration users' feedback and will not meet the public interest objective as set out in the Project Proposal. The fraud TF also believes that key stakeholders like the Monitoring Group members and the PIOB will see this option as maintaining the "status quo" and may conclude that the public interest objective of the project is not achieved. Therefore, the Fraud TF is of the view that this alternative should not be pursued.
100. The Fraud TF proposes to retain the approach in ED-240, because:
- (a) The lack of new considerations / viewpoints expressed by respondents compared to views obtained before the exposure draft, in particular given the extensive outreach performed on this topic with a wide range of stakeholders.
 - (b) The mixed views amongst respondents, in particular diverse views between regulators and practitioners. Mostly regulators are in favor of keeping the requirements in Proposed ISA 240 (Revised). On the other hand, mostly practitioners believe that ISA 701 sufficiently covers matters

related to Fraud or believe that all requirements related to communicating KAMs should be in ISA 701.

- (c) The standard provides the fraud lens to the application of other relevant ISAs as explained in paragraph 95 above.
101. The Fraud TF also discussed that proposed ISA 240 (Revised) may further clarify that there is not a parallel process for the determination of KAMs related to fraud and all other KAMs. To address this concern, the Fraud TF enhanced paragraph 1 in **Agenda Item 8-A** which also addresses similar concerns related to the risk assessment process.

Separate Fraud Section in the Auditor's Report

102. The Fraud TF acknowledges respondents' comments on having a separate section on fraud in the auditor's report and proposes to not make change as there were no strong views for such a section. Generally, respondents seem to be in agreement to include fraud related matters in the KAMs section of the auditor's report.
103. In addition, as explained in paragraph 71 of the EM, the Fraud TF believes that having a subsection or a separate section dealing with KAMs related to fraud could create confusion regarding the relative importance of the other KAMs communicated in the auditor's report. Having a separate section for KAMs related to fraud might also give rise to practical challenges as some KAMs relate to both fraud and error.

Driving the Auditor to Communicate KAMs Related to Fraud

104. In ED-240, the IAASB sought to develop requirements and application material that drive the communication of KAMs related to fraud to meet the needs expressed by stakeholders for more transparency about matters related to fraud in the auditor's report. To do so, the IAASB introduced:
- (a) A requirement that the auditor should include a statement in the auditor's report when there are no KAMs related to fraud to communicate (see paragraph 64 of ED-240); and
 - (b) Application material (see paragraphs A168, A170 and A176 in ED-240) that drive the auditor to communicate KAMs related to fraud.
105. These proposals attracted significant respondents' comments (see paragraph 95(c) and (d)) but the Fraud TF is of the view that the effect of making any changes should be considered against the backdrop that users of the financial statements would like to have more transparency about matters related to fraud in the auditor's report and the objectives of this project.
106. In considering a way forward, the Fraud TF acknowledges respondents concerns on paragraph 64 of ED-240 in particular:
- (a) The risk of widening the expectation gap. The Fraud TF also noted that one Monitoring Group member noted that the statement could widen the expectation gap and therefore did not support it (see paragraph 95(b)).
 - (b) The inconsistency to state there is no KAMs related to fraud when a KAM related to fraud can't be communicated in the auditor's report. The Fraud TF acknowledges that this may happen more frequently for KAMs related to fraud when a fraud or suspected fraud is under investigation.
 - (c) The risk of having standardized boilerplate KAMs to avoid adding the statement.

107. The Fraud TF also noted that there are no statement required in the KAMs section when there are no KAMs on other specific topics (there is only the overall statement when there are no KAMs communicated).
108. Given the above, the Fraud TF proposes to remove paragraph 64 of **Agenda item 8-A** and some of the related application material (paragraphs A175 and A177 of **Agenda item 8-A**).
109. The Fraud TF considered respondents concern about paragraphs A168, A170 and A176 but believes that removing paragraph 64 in **Agenda Item 8-A** will respond to some of these concerns. Also, the Fraud TF is of the view that it was the Board's intention to drive auditors to communicate KAM related to fraud in the auditor's report and that modifying the terminology to describe the probability of occurrence in these paragraphs will diminish the Board's intention. Therefore, the Fraud TF decided to not make any changes in the content of these paragraphs.

Risk of Boilerplate KAMs

110. The Fraud TF discussed respondents' comments on the risk of boilerplate KAMs and noted that many of the respondents who had concerns are practitioners who have the ability to make KAMs related to fraud entity specific.
111. On the other hand, the Task Force realizes that a jurisdiction¹³ who already requires auditors to communicate matters related to fraud in the auditor's report has seen boilerplate language in some of the auditor's reports except when the fraud risk increases. Therefore, the Fraud TF took note of comments raised on paragraph A173 of ED-240 and acknowledges that the second sentence of that paragraph can create confusion with respect to whether revenue recognition and management override of controls should always be communicated. In response to the comments raised, the Fraud TF has removed the second sentence of paragraph A173 in **Agenda Item 8-A** and has strengthened the language in the remaining part of the paragraph.
112. Also, the Fraud TF believes that removing paragraph 64 in **Agenda Item 8-A** as proposed in paragraph 108 above will reduce some of the concerns raised by respondents.

Suspected Fraud, On-Going Investigation and Uncertain Outcome

113. The Fraud TF took note of respondents' comments and concerns with respect to suspected fraud, on-going investigations and uncertain outcomes. The Fraud TF acknowledges that the main concern from respondents seems to relate to disclosing original information and believes that the concern is sufficiently covered by ISA 701 paragraph 14 and related application material.
114. The Task Force notes that paragraph A178 in ED-240 addresses the situation in which a matter determined to be a KAM is not communicated in the auditor's report and includes a reference to paragraphs A53–A54 in ISA 701. However, the Task Force realizes there is no linkage to the application material in ISA 701 that addresses communicating original information. Therefore, the Task Force added paragraph A173A in **Agenda Item 8-A** which highlights that ISA 701 includes considerations and guidance on original information that may be particularly relevant in the context of communicating KAMs related to fraud.

¹³ See NBA's [Report on Fraud in Auditors' Reports in 2022](#)

Reference to Fraud in KAMs Section Heading and Sub-Headings

Section Heading

115. The Fraud TF acknowledges concerns raised by respondents with respect to the heading of the KAMs section and for the argument that “Including Matters Related to Fraud” in the section heading may be misleading when no KAMs related to fraud are communicated. Respondents’ concerns may be exacerbated by the deletion of the statement that there are no KAMs related to fraud.
116. Therefore, the Fraud TF considered two options:
- Option 1: Remove the part “Including Matters Related to Fraud” from the proposed title.
 - Option 2: Make the part “Including Matters Related to Fraud” conditional to when fraud related KAMs are communicated.
117. The Task Force discussed both options and is of the view that option 2 may be confusing for users of the financial statements (why would some auditor’s reports have the heading “Key Audit Matters” and others “Key Audit Matters, Including Matters Related to Fraud”).
118. With respect to option 1, the Task Force realizes that this reduces the emphasis of fraud in the auditor’s report but also believes that the requirement from paragraph 63 of ED-240 to use an appropriate subheading for each KAM that clearly describes that the matter relates to fraud sufficiently emphasizes the KAMs related to fraud. Therefore, the Fraud TF proposes to remove “Including Matters Related to Fraud” from the heading of the section.

Sub-Headings

119. Respondents also had concerns regarding paragraph 63 of ED-240 which requires the auditor to use an appropriate subheading that clearly describes that the matter relates to fraud. The Fraud TF believes the requirement from paragraph 63 of ED-240 should not be changed as it is important to signal to users of the financial statements that a specific KAM relates to fraud and given the proposed changes to the header of the KAMs section as described in paragraph 118 above. Not signaling this would make it harder for users of the financial statements to identify which KAMs relate to fraud and which not. Thus, it would also make the auditor’s report less transparent which contradicts one of the objectives of this project.
120. The Fraud TF also notes that respondents may have misinterpreted paragraph 63 of ED-240 as being a requirement to add a sub-heading for a sub-section on KAMs related to fraud. However, the wording used is similar to the wording used in ISA 701 paragraph 11.
121. Given the above, the Fraud TF is of the view that no changes are needed in Proposed ISA 240 (Revised) but suggests adding guidance in first-implementation guidance to clarify that the sub-heading is intended to differentiate each KAM.

Other Matters

122. The Fraud TF also considered respondents’ comments on other matters:
- (a) Regarding additional illustrative examples of KAMs related to fraud, the Fraud TF believes those would be best placed in first-time implementation guidance.
 - (b) Regarding the concern about disclosing original information when communicating a control deficiency related to fraud as a KAM, the Fraud TF believes that the same approach applies as the

one described in paragraph 113 and 114 above in this Agenda item on suspected fraud, on-going investigation and uncertain outcome.

Matters for IAASB Consideration:

5. The Board is asked for its views on the Fraud TF recommendations and changes discussed above and reflected in **Agenda Item 8-A** to address matters relevant to transparency of matters related to fraud in the auditor's report. In particular:
 - (a) Does the Board agree with the Fraud TF's views and recommendations in this section?
 - (b) Are there any other matters that should be considered and addressed by the Fraud TF relating to the transparency of matters related to fraud in the auditor's report?

Part C: Way Forward

123. Following the September 2024 IAASB meeting, and based on the Board’s feedback, the Fraud TF will continue to discuss the key themes presented in this Agenda Item with respect to the questions analyzed and make further revisions, as needed, to Proposed ISA 240 (Revised) to address the Board’s comments.
124. The Fraud TF will also continue to discuss proposals in response to the comments received on exposure for the remaining questions for ED-240 during the October Task Force meeting. The Fraud TF will present these to the Board at the December 2024 IAASB meeting (see the questions to be discussed in the table below). In addition, in December 2024, the Board will be presented with a first full draft of Proposed ISA 240 (Revised), post exposure.

ED-240 Question ¹⁴	Description
Question 2	Professional Skepticism
Question 6	Disclosure requirements about fraud extended to entities other than listed entities
Question 7	Separate Stand-back Requirement
Question 8	Scalability
Question 9	Linkages to Other ISAs
Question 10	Other Matters
Question 11	Translations

125. In addition, the Fraud TF will continue to engage in coordination activities with IESBA, and with other IAASB Task Forces and Consultation Groups, as appropriate and undertake outreach. The IAASB’s approval of the final pronouncement is targeted for March 2025.

¹⁴ Question 12 about the effective date will be discussed with the Board in its March 2025 meeting.

Fraud TF Members and Supporting IAASB Staff and Activities

Fraud TF Members

1. The Fraud TF consists of the following members:
 - Julie Corden (Chair)
 - Greg Schollum
 - Josephine Jackson
 - Sami Alshorafa
 - Wendy Stevens

IAASB Staff

2. IAASB Staff supporting the project are:
 - Jasper van den Hout, Director
 - Angelo Giardina, Principal
 - Ida Diu, Senior Manager
 - Nathalie Baumgaertener Dutang, Senior Manager
 - Isabelle Raiche, Senior Manager
3. Information about the project can be found [here](#).

Fraud TF Activities

4. Since June 2024, the Fraud TF held one physical meeting and one virtual meeting.

List of Respondents to ED–240

No.	Respondent	Region
Monitoring Group		Total: 2
1.	International Forum of Independent Audit Regulators	Global
2.	International Organization of Securities Commission	Global
Investors and Analysts		Total: 3
3.	CFA Institute	Global
4.	Corporate Reporting Users' Forum	Global
5.	Eumedion	Europe
Regulators and Audit Oversight Authorities		Total: 8
6.	Botswana Accountancy Oversight Authority	Middle East and Africa
7.	Canadian Public Accountability Board	North America
8.	Committee of European Auditing Oversight Bodies	Europe
9.	European Securities and Markets Authority	Europe
10.	Financial Reporting Council – United Kingdom [#]	Europe
11.	Independent Regulatory Board for Auditors – South Africa [#]	Middle East and Africa
12.	Irish Auditing and Accounting Supervisory Authority	Europe
13.	Securities and Exchange Commission of Brazil	South America
Jurisdictional and National Auditing Standard Setters		Total: 15
14.	American Institute of Certified Public Accountants [#]	North America
15.	Australian Auditing and Assurance Standards Board [#]	Asia Pacific
16.	Austrian Chamber of Tax Advisors and Public Accountants [#]	Europe
17.	Auditing and Assurance Standards Board Canada [#]	North America
18.	Compagnie Nationale des Commissaires aux Comptes [#] and Conseil Supérieur de l'Ordre des Experts-Comptables	Europe
19.	Hong Kong Institute of Certified Public Accountants [#]	Asia Pacific
20.	Instituto de Auditoria Independente do Brasil [#]	South America
21.	Institut der Wirtschaftspruefer in Deutschland [#]	Europe
22.	Instituto Mexicano de Contadores Públicos [#]	North America
23.	Japanese Institute of Certified Public Accountants [#]	Asia Pacific

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No.	Respondent	Region
24.	New Zealand Auditing and Assurance Standards Board of the External Reporting Board [#]	Asia Pacific
25.	Nordic Federation of Public Accountants [#]	Europe
26.	Royal Netherlands Institute of Chartered Accountants [#]	Europe
27.	Saudi organization for Chartered and Professional Accountants [#]	Middle East and Africa
28.	Wirtschaftsprüferkammer [#]	Europe
Accounting Firms¹⁵		Total: 15
29.	Baker Tilly International*	Global
30.	BDO International*	Global
31.	CohnReznick	Global
32.	Crowe Global*	Global
33.	Crowe	North America
34.	Deloitte*	Global
35.	Ernst & Young Global*	Global
36.	Forvis Mazars* ¹⁶	Global
37.	Grand Thornton International*	Global
38.	KPMG International*	Global
39.	MNP	North America
40.	Moore Global Network*	Global
41.	PriceWaterhouseCoopers*	Global
42.	RSM International*	Global
43.	SRA	Europe
Public Sector Organizations		Total: 5
44.	Office of the Auditor General of Canada	North America
45.	Office of the Auditor General of Ontario	North America
46.	Provincial Auditor Saskatchewan	North America
47.	Riksrevisionen (Swedish National Audit Office)	Europe

* Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits.

Denotes members of the [IAASB-NSS Liaison Group](#)

¹⁶ Mazars, member of The Forum of Firms, merged with Forvis and formed Forvis Mazars, a new global network on June 1, 2024.

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No.	Respondent	Region
48.	Government Accountability Office – United States	North America
Member Bodies and Other Professional Organizations		Total: 33
49.	Accountancy Europe	Europe
50.	ASEAN Federation of Accountants	Asia Pacific
51.	Asociacion Interamericana de Contabilidad	South America
52.	Botswana Institute of Chartered Accountants	Middle East and Africa
53.	California Society of Certified Public Accountants	North America
54.	Center for Audit Quality	North America
55.	Chamber of Auditors of the Czech Republic	Europe
56.	Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants	Global
57.	Chartered Accountants Ireland	Europe
58.	CPA Australia	Asia Pacific
59.	CPA Ontario Small and Medium Practices Advisory Committee	North America
60.	European Federation of Accountants and Auditors for SMEs	Europe
61.	Federación Argentina de Consejos Profesionales de Cs. Económicas	South America
62.	Federation of Accounting Professions of Thailand	Asia Pacific
63.	Fraud Advisory Panel	Europe
64.	Institute of Certified Public Accountants of Rwanda	Middle East and Africa
65.	Institute of Certified Public Accountants of Uganda	Middle East and Africa
66.	Institute of Chartered Accountants in England and Wales	Europe
67.	Institute of Chartered Accountants of Ghana	Middle East and Africa
68.	Institute of Chartered Accountants of Jamaica	North America
69.	Institute of Chartered Accountants of Scotland	Europe
70.	Institute of Chartered Accountants of Sri Lanka	Asia Pacific
71.	Institute of Singapore Chartered Accountants	Asia Pacific
72.	Instituto Nacional de Contadores Públicos de Colombia	South America
73.	International Federation of Accountants	Global
74.	Korean Institute of Certified Public Accountants	Asia Pacific
75.	Malaysian Institute of Accountants - Auditing and Assurance Standards Board	Asia Pacific

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No.	Respondent	Region
76.	Malaysian Institute of Certified Public Accountants	Asia Pacific
77.	Malta Institute of Accountants	Europe
78.	Pan-African Federation of Accountants	Middle East and Africa
79.	Pennsylvania Institute of Certified Public Accountants	North America
80.	South African Institute of Chartered Accountants	Middle East and Africa
81.	Virginia Society of Certified Public Accountants	North America
Academics		Total: 2
82.	Accounting and Finance Association of Australia and New Zealand	Asia Pacific
83.	University of KwaZulu-Natal	Middle East and Africa
Individuals and Others		Total: 6
84.	Altaf Noor Ali Chartered Accountants	Asia Pacific
85.	Albert Bosch	Europe
86.	Colin Semotiuk	North America
87.	John Keyser	North America
88.	Moises Gonzalez Mercado	North America
89.	Dr. Rasha Kassem	Europe

**Summary of NVivo Reports and the Related Section in Part B of this Agenda Item
 Where the Summary is Presented**

ED-240 Question	Part B of this Agenda Item	Agenda Item:	
		NVivo Word Analysis	NVivo Excel Analysis
Question 1	Section I – Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements	Agenda Item 8-B.1	Agenda Item 8-C.1
Question 3	Section II – Risk Identification and Assessment	Agenda Item 8-B.2	Agenda Item 8-C.2
Question 4	Section III – Fraud or Suspected Fraud	Agenda Item 8-B.3	Agenda Item 8-C.3
Question 5	Section IV – Transparency on Fraud-Related Responsibilities and Procedures in the Auditor’s Report	Agenda Item 8-B.4	Agenda Item 8-C.4