

Fraud – Question 8

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

Q08 Agree**3. Regulators and Audit Oversight Authorities****Securities and Exchange Commission of Brazil**

Agree (with no further comments)

4. Jurisdictional and National Auditing Standard Setters**Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables**

Agree (with no further comments)

Hong Kong Institute of Certified Public Accountants

Agree (with no further comments)

Instituto Mexicano de Contadores Publicos

Agree (with no further comments)

Japanese Institute of Certified Public Accountants

Agree (with no further comments)

5. Accounting Firms**Crowe Global**

We believe that the approach of ED-240 is appropriately scalable.

Moore Global Network

Agree (with no further comments)

RSM International

Agree (with no further comments)

6. Public Sector Organizations**Office of the Auditor General of Canada**

Agree (with no further comments)

Office of the Auditor General of Ontario

We agree.

Provincial Auditor Saskatchewan

Yes, the IAASB has appropriately integrated scalability considerations in ED-240.

7. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants

Agree (with no further comments)

Federation of Accounting Professions of Thailand

Agree (with no further comments)

Institute of Certified Public Accountants of Uganda

Agree (with no further comments)

Institute of Chartered Accountants of Ghana

Agree (with no further comments)

Instituto Nacional de Contadores Públicos de Colombia

Agree (with no further comments)

Korean Institute of Certified Public Accountants

Agree (with no further comments)

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Agree (with no further comments)

Malaysian Institute of Certified Public Accountants

Agree (with no further comments)

Virginia Society of Certified Public Accountants

Agree (with no further comments)

9. Individuals and Others

Albert Bosch

Agree (with no further comments)

John Keyser

Agree (with no further comments)

Moises Gonzalez Mercado

Agree (with no further comments)

Q08 Agree with comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Agree, with comments below

The IAASB has appropriately integrated scalability in ED-240. Principles-based and conditional requirements ensure flexibility and relevance, while differential requirements and specific guidance for

smaller entities enhance practical application. Context-specific examples show how procedures can adapt based on the audit's nature, ensuring ED-240 is versatile for all entity sizes and complexities.

Independent Regulatory Board for Auditors – South Africa

Agree, with comments below

The opinions of our Task Group varied on whether the fraud requirements should be reduced/simplified for smaller audits or entities. Some argued that fraud's significance is independent of entity size, rendering scalability moot.

Others pointed out a lack of guidance in the standard for conducting risk assessments for companies without a formal control framework, a notable concern for smaller entities where management override risks are higher due to less segregation of duties.

Additionally, we observed that the transparency requirements for smaller audits are not apparent.

In conclusion, we recommend that although the essence of fraud and the auditor's reaction cannot be diminished, the standard should offer more detailed guidance on tailoring fraud risk assessment and responses to entities of varying sizes.

Irish Auditing & Accounting Supervisory Authority

Agree, with comments below

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

4. Jurisdictional and National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants

Agree, with comments below

In principle we agree with the Scalability Considerations in EM paragraph 113. However, the circularity created by the links to other ISAs in an ISA hampers the scalability and understandability of the ISAs which should be considered altogether as a set of professional standards. This may lead to issues for SMPs to scale down the audit approach.

What we are missing is a clear reference that in an audit of small and non-complex entities often top management (owner- manager) might be involved in transactions that are indicative of fraud or suspected fraud.

We did not find any scalability considerations in relation to inquiries of management and inconsistent responses and other examples of conditional requirements. (see EMpara113b).

Institut der Wirtschaftsprüfer in Deutschland

Agree, with comments below

The draft includes a valid discussion of the difference in risk assessment between larger and smaller entities in paragraph A58 as regards the nature of fraud risks, which would lead to a different emphasis of effort.

The difficulties in differentiation between alleged and suspected fraud discussed in our response to Question 4 relating to large numbers of allegations will tend to apply to larger entities. However, larger

entities will also tend to have more sophisticated systems in place for managing allegations as well. This matter could be addressed in the application material relating to allegations of fraud.

Instituto de Auditoria Independente do Brasil

Agree, with comments below

We suggest enhancements in ED to better address our concerns mentioned in our response at Question 4, in particular, aiming to enable the standard to be scaled up, for audits of larger and more complex entities.

New Zealand Auditing and Assurance Standards Board of the External Reporting Board

Refer also to our comments on question 4.

Agree, with comments below

Royal Dutch Institute of Chartered Accountants

Agree, with comments below

Matters related to fraud are relevant to audits of all entities, regardless of size or complexity. And fraud may occur at any entity. So yes, in the exposure draft IAASB has gathered all the instances of requirements that apply when certain conditions are met. The scalability depends on conditions. These conditions are regardless of the nature and size of the client.

However, ED-240 indicates control deficiencies as fraud risk factors. In the case of smaller entities, this may trigger a lot of communications of the auditor to management or TCWG.

The application material in paragraphs A58 and A88 deals with this aspect but does not take away our concerns that this will happen at smaller entities.

Saudi Organization for Chartered and Professional Accountants

Agree, with comments below

The proposed revisions in ED-ISA 240 included an appropriate consideration of scalability. However, the repeated reference in the proposed revisions to “Less Complex Entities” (LCE) might create misconception when the ISA for LCE (which is a standalone standard) is applicable in certain jurisdictions. This matter may need further consideration and illustration. For instance, a compelling question may rise about whether those auditors applying ISA for LCE should also consider the guidance provided in this standard after revision (e.g. A88) or not.

5. Accounting Firms

BDO International

Agree, with comments below

Overall, we believe that ED-240 is scalable to entities of different sizes and complexities. The conditions prefacing some of the requirements can be applied regardless of the size or complexity of the entity being audited. Further, the examples in the application guidance are helpful in illustrating how scalability can be achieved. We recommend adding some more examples on how to achieve scalability, perhaps in non-authoritative guidance, specifically related to documenting the auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control.

CohnReznick

Agree, with comments below

We acknowledge and appreciate the Board's efforts to address and illustrate scalability within ED-240. Except for the concerns raised in our responses to questions 4 to 6, we believe that the Board has appropriately integrated scalability considerations into the Proposed Standard.

Deloitte

Agree, with comments below

We acknowledge that it can be challenging to scale a topic such as fraud to the same extent as other ISAs, but we believe that the extent of scalability within ED-240 is reasonably consistent with that of other ISAs, specifically the inclusion throughout the standard of guidance for matters to consider followed by examples in various application material paragraphs.

We do, however, have scalability concerns related to paragraph 55, as highlighted in our response to question 4 (Fraud or Suspected Fraud), paragraph 22, and paragraph A36 of ED-240.

We believe that, as currently drafted, paragraph 22 and the related application material could be interpreted as requiring all audits to include a forensic expert. Accordingly, we believe the requirement for the engagement partner to determine the competence and capabilities of the engagement team in ISA 220 (Revised) is sufficient, and, therefore, paragraph 22 from ED-240 should be removed with paragraphs A33–A36 being attached to current paragraph 23 in ED-240. We are supportive of including application material in ED-240 (or in ISA 220 (Revised)) regarding the potential need for specialized skill or knowledge of engagement resources. Further, application material could also reinforce the requirement in ISA 620, paragraph 7, which prescribes the requirement for auditors to determine whether specialized skill or knowledge is needed to obtain sufficient appropriate audit evidence, as it relates to the consideration of fraud.

We also recommend the following edits to paragraph A36 to ensure there is no implicit expectation in the application material that an IT, data, or other specialist is required on every audit engagement:

Paragraph A36: InWhen determining whether the engagement team has the appropriate competence and capabilities, specific to the facts and circumstances of the engagement related to consideration of fraud risk, the engagement partner may consider matters such as whether expertise is needed in IT systems or IT applications used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit (e.g., such as the testing of high volumes of journal entries and other adjustments, or complex accounting estimates, when responding to the significant risk related to management override of controls).

Ernst & Young Global

Agree, with comments below

Generally, we believe that the scalability considerations included in ED-240 are appropriate; however, we believe ED-240 could be improved by moving certain guidance in the application material that relates only to larger, more complex entities to a separate Scalability section of the application material and providing more scalability considerations for smaller, less complex entities. For example:

We suggest that the IAASB revise and add application material throughout 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 to more clearly differentiate the considerations for larger, more complex entities and to provide more guidance on how to obtain this understanding for smaller, less complex entities. Specifically, we believe the addition of the more detailed, less principles-based requirements to the required risk assessment procedures (paragraphs 33 – 39 of ED-240) are written for larger, more complex or listed entities that have more robust systems of internal control related to the identification, assessment and monitoring of the entity's fraud risks. We strongly suggest that the IAASB provide guidance on how these requirements can be achieved for smaller, less complex entities.

We also believe that some of the new application material is skewed toward understanding the fraud-related aspects of a more complex system of internal control, and as such, suggest that the IAASB move these considerations into scalability sections to illustrate considerations for larger, more complex entities, for example:

Paragraph A79 of ED-240, which introduces an entity's fraud risk management program

Paragraph A65 of ED-240, which states that the auditor may consider "listening to the entity's earnings calls." We suggest the IAASB consider changing this to "understanding information shared with analysts about earnings or other business developments" to keep this guidance from becoming dated.

Paragraph A66 of ED-240, which states that the auditor may consider short-selling reports, negative media attention, or negative analyst reports.

As explained in our response to Q4, while we acknowledge that the requirements in paragraph 55 of ED-240 are conditional to when an auditor identifies fraud or suspected fraud, we do not believe the requirements are scalable as proposed, as they are currently required for all identified fraud or suspected fraud, which, in a large complex entity, could include a large volume of inconsequential matters. Also, as explained in our response to Q4, we do not believe the examples to paragraph 55 of ED-240 effectively illustrate how the required procedures in paragraphs 55 and 56 can be scaled.

KPMG International

Agree, with comments below

In general, we believe that the IAASB has appropriately integrated scalability considerations within ED-240, and we believe this approach is appropriate, i.e., that the requirements of the standard are applicable to all entities (subject to interactions with other standards that are applicable only in certain circumstances, e.g., ISA 701), as fraud can occur across the spectrum of entities in terms of their size and complexity. We also note that certain requirements are conditional requirements, which are inherently scalable as they are only applicable when the particular condition actually exists.

However, we refer to our response to Question 4, in which we set out certain scalability-related concerns in respect of the requirements at 55-56.

PriceWaterhouseCoopers

Agree, with comments below

We consider the scalability considerations included in ED-240 to be broadly appropriate. Conditionality for certain requirements (i.e., limiting the relevance and applicability of certain requirements), where relevant, is appropriate, and the nature of this standard means that many requirements should be inherently scalable to the engagement circumstances.

Notwithstanding our overall support, please see our response to question 4 regarding the application material supporting the requirements in paragraphs 55-59 (fraud or suspected fraud), which may imply a work effort that is not proportionate or raise questions about scalability.

SRA

Agree, with comments below

In our opinion, the last sentence of paragraph A74 raises questions in relation to the requirements in paragraph 34. If the entity does not have a supervisory authority, the auditor must discuss almost all elements of paragraph 34 with management. However, the last sentence of paragraph A74 seems to suggest otherwise ('In these cases, there is ordinarily no action on the part of the auditor [...]').

7. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants

Agree, with comments below

We note the requirements and application materials are more focused on entities with formal set-ups and a proper internal control environment. More guidance is required to address the conditions such as:

Extent of work relating to understanding control environment and testing controls in audits where substantive approach is adopted, which is common for audits of smaller entities.

Addressing management override of controls in less formal set-ups where directors are shareholders, or when directors are not readily accessible.

Asociacion Interamericana de Contabilidad

Agree, with comments below

Yes, we believe that the IAASB has appropriately integrated scalability considerations into ED-240. This designed draft to be applicable to entities of varying sizes and complexities, which is critical given that fraud can affect any entity, regardless of size or complexity. ED-240 provides a framework that tailored by auditors according to the specific circumstances of the audited entity, allowing practices and procedures to be adjusted to reflect both the scale and organizational structure of the entity. This ensures that auditors can apply the principles of ED-240 effectively in a wide variety of contexts, while maintaining the effectiveness and relevance of audits in detecting and responding to fraud.

Chartered Accountants Ireland

Agree, with comments below

Institute of Certified Public Accountants of Rwanda

Agree, with comments below

We believe scalability considerations are appropriately integrated since matters related to fraud are sufficiently principles-based to allow wider application; whilst some conditional requirements included in the standard only apply upon meeting certain conditions.

Institute of Singapore Chartered Accountants

Agree, with comments below

Areas where more guidance is needed

While we appreciate the scalability considerations included in the ED, we note the requirements and application material are more focused on entities with formal set-ups and proper internal control environment. More guidance is required to address scalability in situations such as:

Extent of work relating to understanding control environment and testing controls in audits where substantive approach is adopted, which is common for audits of smaller entities.

Addressing management override of controls in less formal set-ups where directors are shareholders, or when directors are not readily accessible.

South African Institute of Chartered Accountants

Agree, with comments below

ED-240 requires the auditor to apply at least some of the fraud or suspected fraud requirements applicable to the circumstances to determine the effect on the audit engagement. Obtaining an understanding of the fraud or suspect in accordance with Par.55, is necessary to inform the engagement partner's determinations required in paragraph 56 irrespective of the type of audit engagement.

The scalability paragraph does not result in the auditor performing different audit procedures but rather highlights that depending on the entity's size, the documentation available may differ slightly in some instances. However, the auditor will still be required to obtain an understanding of the matter giving rise to fraud or suspected fraud.

Par. A58. In the case of a smaller or less complex entity, some or all these considerations may be inapplicable or less relevant.

8. Academics

University of KwaZulu-Natal

Agree, with comments below

Yes, but this could be extended to transparency on auditors' reports.

9. Individuals and Others

Altaf Noor Ali Chartered Accountants

R8. Yes.

Our reasons for the agreement are as follows:

8.1 It is a task to pick up which conditions are applicable in an audit engagement. However, we overcome this limitation with experience. First -time audits remain an exception to the rule. Our preference for stand-alone standard remain. We are surely encouraged by the 'ISA for the Less Complex Entities'.

Q08 Neither agree nor disagree

2. Investors and Analysts

Eumedion

Neither agree/disagree, but see comments below

These requirements are rather difficult to judge from an investor perspective.

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

We welcome the IAASB's approach to integrate scalability considerations into ED 240. However, the IAASB should review the provisions of ED 240 that refer to other ISAs to ensure that they are sufficiently clear on their scope where relevant differential requirements apply in those other ISAs. For example, ISA 701 in respect of KAMs (paragraphs 61-64) applies to listed entities and where required by law or regulation (see also our response to Q6).

Financial Reporting Council – United Kingdom

Neither agree/disagree, but see comments below

We agree that IAASB has integrated scalability considerations in ED-240. However, including examples in the application material to clearly demonstrate scalability would be very beneficial, particularly for SME audits.

The EM, paragraph 57, includes the statement "For example, after the auditor obtains an understanding of the fraud or suspected fraud in paragraph 55 and the engagement partner makes the required determinations in paragraph 56, the rest of the fraud or suspected fraud requirements may not be applicable depending on the facts and circumstances of the audit and the nature of the fraud." Giving some examples in the application material of different approaches in different circumstances would be helpful.

4. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants

Neither agree/disagree, but see comments below

As previously stated in our response to question 4, we have concerns about the scalability of the requirements in paragraph 55 when an identified fraud is inconsequential and ask the IAASB to consider providing additional guidance to better explain the auditor's responsibilities. Additionally, we recommend adding the following paragraph after the "Scope of this ISA" section of ED-240 to improve scalability:

Nature of Fraud

1A. Although this section applies to all fraud, including misappropriation of assets and fraudulent financial reporting, the nature, timing, and extent of the risk assessment and further audit procedures performed in accordance with this ISA may vary in relation to the type of fraud and the assessment of the related risks of material misstatement. For certain frauds, the risk assessment procedures and further audit procedures required by this ISA would not be expected to be extensive. When a fraud risk is identified, the complexity and risk of material misstatement due to the fraud is high, and therefore procedures to respond to the assessed risk would be expected to be more extensive. This ISA contains guidance on how the requirements of this section can be scaled.

5. Accounting Firms

Crowe

Neither agree/disagree, but see comments below

ED-240 appears to be sufficiently scalable relative to the size or complexity of entities. Refer to our responses to Question 1 and Question 4 for our concerns on scalability related to non-material fraud and the proposed requirements on fraud and suspected fraud.

6. Public Sector Organizations

Government Accountability Office – United States

The IAASB may need to consider how an audit of a less complex entity (LCE) works and consider whether specific requirements or guidance may be necessary to apply a revised ISA 240 to LCE audits. Further, additional application material related to immaterial and third-party fraud and the guidance around qualitative fraud would be helpful, particularly for audits of larger and more complex entities.

7. Member Bodies and Other Professional Organizations

Center for Audit Quality

Neither agree/disagree, but see comments below

The CAQ appreciates the Board's efforts to address and illustrate scalability within ED-240. We recognize the challenges of developing a global approach that is principles-based, capable of being implemented in a scalable manner, and that is compatible with a variety of different jurisdictional regulatory systems around the world.

Scalability of the fraud or suspected fraud requirements

Refer to our response to Question 4 regarding our concerns related to the scalability of the proposed requirements around fraud and suspected fraud.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer 8: Although the standard speaks of the importance of the concept “scalability”, it is not clear and needs further clarification in the aspects of scalability. There is no clarity and clear examples.

Institute of Chartered Accountants of Scotland

Neither agree/disagree, but see comments below

Q08 Disagree

4. Jurisdictional and National Auditing Standard Setters

Auditing and Assurance Standards Board Canada

Disagree, with comments below

While we support the intention of integrating scalability considerations in the development of the standard, we believe further revisions and application material are needed for the proposed standard to be scalable to smaller or less complex entities and not-for-profit entities (NPOs).

Scalability within this standard is important regardless of the separate ISA for LCE, as many smaller or less complex entities will be out of the scope of ISA for LCE and need an audit conducted using the full ISAs, including ED-240. Ensuring that the ISAs are scalable and practicable helps to decelerate or curb the trend toward downgrading audit engagements to review or compilation engagements.

Not enough scalability examples or signposting in the application material

Throughout outreach, we heard concerns that:

There are not enough scalability examples of the application of the requirements to all entities regardless of whether their nature and circumstances are less or more complex.

All application material that currently has a scalability consideration is not sign-posted with a heading.

Many scalability examples included in ED-240 are relevant to large or public entities.

Where there are scalability considerations, the considerations do not provide practical guidance on how to effectively scale the requirements, especially for smaller or less complex entities. For example, paragraph A58 states “In the case of a smaller or less complex entity, some or all of these considerations may be inapplicable or less relevant...”. However, the examples provided do not clearly illustrate how or what would make any of the considerations less relevant for smaller or less complex entities.

In addition, there are inherent presumptions of formal and written processes which are likely in place for larger entities but may not be the case for smaller or less complex entities. For example, paragraph A69 bullets 2 and 3 could be interpreted as assuming all organizations have a fraud policy and fraud awareness training.

A69. In considering the extent to which management demonstrates a commitment to ethical behavior, the auditor may obtain an understanding through inquiries of management and employees, and through considering information from external sources, about:

The entity’s communications with respect to integrity and ethical values. <The following example implies that these considerations are relevant for all organizations> For example, the entity may have a mission statement, a code of ethics, or a fraud policy that sets out the expectations of entity personnel in respect to their commitment to integrity and ethical values regarding managing fraud risk. <Provides an additional consideration to scale up> In larger or more complex entities, management may also have set up a process that requires employees to annually confirm that they have complied with the entity’s code of ethics.

<Implies that this example is relevant for all organizations> Whether the entity has developed fraud awareness training. For example, the entity may require employees to undertake ethics and code of conduct training as part of an ongoing or induction program. <Provides an additional consideration to scale up> In a larger or more complex entity, specific training may be required for those with a role in the prevention and detection of fraud (e.g., the internal audit function).

Further guidance and examples for smaller or less complex entities will help with the application of the requirements to the varying nature and circumstances of entities.

Suggest:

Adding scalability headings within the application material and reviewing application material that currently refers to less or more complex to see where it can be combined and contrasted to show both sides of complexity in one paragraph under the scalability heading. For example:

Adding a scalability consideration following paragraph A44 based on paragraph A16 of ISA 315 (Revised 2019).

Signposting paragraph A57 as a scalability example.

Adding an example in paragraph A64 of a typical user of performance measures for a smaller or less complex entity as shareholders and analysts are typically applicable for large public companies.

A64. Performance measures, whether internal or external, may create pressures on the entity. These pressures, in turn, may motivate management or employees to take action to inappropriately improve the business performance or to misstate

the financial statements. Internal performance measures may include employee performance measures and incentive compensation policies. External performance measures may include expectations from shareholders, lenders, analysts, or other users.

Expanding paragraph A68 by adding a scalability consideration based on paragraph A92 of ISA 315 (Revised 2019).

A68. Understanding aspects of the entity's control environment that address the entity's culture and understanding management's commitment to integrity and ethical values assists the auditor in determining management's attitude and tone at the top with regards to the prevention and detection of fraud. The design and implementation of an entity's control environment can differ based on its size and complexity. For example, less complex entities may use less structured or simpler controls (i.e., policies and procedures) regarding the prevention and detection of fraud.

Adding examples to paragraph A69 that effectively illustrate non-complex, similar to the approach used in paragraphs A79 and A88. Paragraph A79 details scaling up for larger organizations, while paragraph A88 explains scaling down for smaller or less complex entities.

Signposting the scalability example in paragraph A89 which is currently buried in a large paragraph.

A89. Management accepts responsibility for the entity's system of internal control and for the preparation of the entity's financial statements. Accordingly, it is appropriate for the auditor to make inquiries of management regarding management's own assessment of the risk of fraud and the controls in place to prevent or detect it. <Scalability starts here and could be sign-posted> The nature, extent and frequency of management's assessment may vary from entity to entity. In some entities, management may make detailed assessments on an annual basis or as part of ongoing monitoring. In other entities, management's assessment may be less structured and less frequent. The nature, extent and frequency of management's assessment are relevant to the auditor's understanding of the entity's control environment. For example, the fact that management has not made an assessment of the risk of fraud may in some circumstances be indicative of the lack of importance that management places on internal control.

Reordering bullets to group fraud risk factors in Appendix 1 applicable to all entities and those only applicable to listed entities.

During our outreach, we also identified the following additional areas with scalability concerns:

Presumption of risk of material misstatement due to fraud in revenue recognition

The presumption of risks of material misstatement due to fraud in revenue recognition is an area where it may pose particular challenges for entities where the risk of material misstatement due to fraud lies in areas other than revenue. For example, in the audit of NPOs, the presumed risk of material misstatement due to fraud in revenue recognition may not be as relevant as it is in for-profit entities. (See our detailed concern and suggestion in Question 3)

Inquires when fraud or suspected fraud is identified

(Our concern and suggestions below also relate to our response to Question 4)

There are concerns about paragraph 55(a), which requires an auditor to "make inquiries about the matter with a level of management that is at least one level above those involved" when fraud or suspected fraud is identified. The requirement is unclear on how an auditor proceeds where an entity has a simple management structure with no one above those involved (i.e., management perpetrated the fraud and management is also those charged with governance).

Suggest:

Providing a scalability consideration in the application material to clarify the auditor's response when fraud or suspected fraud is identified and there is no one in the entity above those involved in the fraud or suspected fraud.

Australian Auditing and Assurance Standards Board

Disagree, with comments below

See Response to Question 4.

ED-240 paragraph A88 states that “When there are no formalized processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance identify fraud risks related to the misappropriation of assets and fraudulent financial reporting and assesses the significance of the identified fraud risks.” Additional guidance on what constitutes appropriate and sufficient audit evidence that is required to conclude on the entity's control environment for smaller entities should be considered.

The examples in ED-240 paragraph A29 may apply mainly to larger, more complex entities (such as references to audit committee, internal audit function and whistleblower program). We recommend including examples relevant to smaller entities to better address scalability.

Nordic Federation of Public Accountants

Disagree, with comments below

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

Also, the presumed risk of fraud in revenue recognition may not be as relevant in SMEs as it is in larger entities. More specifically than general revenue recognition, recognizing sales or costs in an incorrect accounting period, manipulating stock or manipulating bad debt provisions would all appear to be more prevalent risks.

General guidance such as A58 of ED-240 states: “In the case of a smaller or less complex entity, some or all of these considerations may be inapplicable or less relevant, which is not really helpful.

Wirtschaftsprüferkammer

No, we do not believe that the IAASB has appropriately and sufficiently integrated scalability considerations in ED-240. The discussions on scalability in A58 seem rather vague and offer only limited assistance. The first example in A58 stating that “a smaller or less complex entity may not have a written code of conduct but, instead, may have developed a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example” is of little practical value. The discussions should delve more deeply into the actual concerns of smaller or less complex entities. Furthermore, examples should be provided of specific requirements that can be omitted or applied in a more straightforward way.

5. Accounting Firms

Baker Tilly International

Disagree, with comments below

We support standards being written small/ less complex first and then building up requirements to more complex/ greater public interest – ED ISA 240 has been written with large/complex in mind first with carve-outs which imposes complexity and burden on audits where it is not necessary or demanded by users

The burden is in the assessment and execution phases – claimed reductions in burden once a fraud has been identified (based on the nature of the fraud) are minor by comparison

Forvis Mazars

Disagree, with comments below

Given that fraud related matters are relevant to audits of all types of entity, we appreciate the efforts made by the IAASB regarding scalability, including considerations for smaller or less complex entities (ED240.A58) and the conditional requirements highlighted in para. 113 of the explanatory memorandum.

However, we do have significant concerns that the standard is clearly written for, and targeted to, audits of larger, more complex, public interest entities, as with many of the revised standards in recent years. There are two main areas where ED240 gives rise to scalability concerns, with the proposals predicated on:

an expectation of the use of forensic experts - In the extant ISA240, forensic experts are referred to only once, compared to more than 25 references in ED 240, suggesting a potential expectation gap around forensic specialists being required on audits, which in the majority of cases would be unnecessary

control structures not seen in smaller, less complex entities – as noted above, ED240.55 appears to raise an expectation that auditors will test the operating effectiveness of controls and also requires auditors to make inquiries with “a level of management that is at least one level above those involved” – in many entities such a control environment and management structure may not exist.

Forensic specialist involvement is usually restricted to audits of large, complex entities performed by larger firms with in-house forensic accountant teams at their disposal and, typically, their involvement is in response to known issues (e.g. identified fraud indicators) rather than when identifying and evaluating fraud risks as part of the audit engagement. The importance of managing the expectation around the use of forensic experts and scalability cannot be overstated. Many firms will not have access to forensic skills and any expectation that such skills are applied routinely in audit engagements could have significant unintended consequences around competition and choice in the audit market.

We believe that greater scalability could be built into the standard through the use of more conditional requirements, based on complexity of the condition rather than necessarily the complexity of the audit or the audited entity, including: the complexity of the control environment (driving requirements around controls and deficiencies) and the complexity of any frauds or suspected frauds identified (driving the need to consider involvement of forensic experts).

In this way, conditional requirements may typically apply for larger, more complex, public interest entities than for a smaller, less complex entity with a simple control environment, but would also reflect the circumstances of individual engagements. Additional guidance including examples of situations where the audit engagement team could deal with a fraud situation itself, or which may give rise to the need to involve forensic experts, would be very helpful.

We note that the IAASB has expanded the requirements around incorporating an element of unpredictability in the response to cover all fraud risks, not just those at financial statement level. This change has gone largely unnoticed but is likely to impact on the work effort and documentation when responding to assertion level fraud risks. It would be helpful if the IAASB could clarify whether this was its intention and, if so, provide examples to support auditors in applying unpredictability in assertion level risks.

We are concerned with the scalability of ED-240.56 with the requirement for the engagement partner “to determine whether to” perform certain risk assessment procedures and design and perform further audit procedures. We believe that complying with this requirement may be challenging (e.g. in very large audits with a large volume of considerations or group audits where barriers may arise due to language/cultural differences). Whilst we agree that it is appropriate for the engagement partner to take overall responsibility for the audit, we believe that scalability can be achieved by requiring the auditor to perform the procedures described in ED-240.56 and adding an overall requirement regarding the engagement partner’s responsibilities.

Grand Thornton International

Disagree, with comments below

See our response to Question 4.

MNP

Disagree, with comments below

We do not believe that ED-240 contains the necessary scalability considerations that should apply to small and medium sized entities. Canada’s regulatory environment incorporates a Venture Exchange for small and medium sized listed entities. Moreover, within the Canadian landscape, numerous micro-entities operate without highly sophisticated governance structures or formally documented internal control systems. For instance, in Venture Exchange listed entities, those charged with governance are not required to be financially literate and in many of these smaller listed entities CEO’s are majority owners. In multiple areas of ED-240 there are requirements to understand and discuss the entity’s culture, management’s commitment to integrity and ethical values, and oversight by those charged with governance. Consequently, for many small and medium sized entities in Canada, there will be limited aspects to explore and discuss given resource and capacity constraints at the entity and the size and informal nature of the business, however these entities still require an unqualified audit opinion due to securities law. Significant application guidance is necessary to clearly articulate the expectations of auditors of small and medium sized businesses (i.e., scalability considerations). Additionally, if the auditor had concerns about the entity’s culture and commitment to integrity and ethics, this should have been identified at the client acceptance/continuance stage and arguably the audit should not have been accepted.

In addition, paragraph 29(b) states that the discussion should include a consideration of fraud that has occurred at the entity during the current or prior years. For many clients, the auditor may not have the history or knowledge of prior years’ fraud and we recommend that this requirement be removed, or that conditional language be added limiting the auditor’s responsibility to inquiry regarding whether those charged with governance are aware of prior years’ frauds. Only if the answer to that question is yes, should the auditor be required to consider any required follow up. As an example, if a group entity acquired a new subsidiary during the year, it may be interpreted under 29(b) that the auditor would need to inquire about any previous years’ frauds at that acquired entity – it is unclear for how many years back would the auditor be required to go.

Overall, we believe that this standard will be difficult for small and medium sized entity auditors to implement on a cost-effective and value-added basis. Significant guidance will be necessary to ensure scalability is reasonably possible and interpretations are consistent between practitioners and regulators.

6. Public Sector Organizations

Riksrevisionen (Swedish National Audit Office)

Disagree, with comments below

We believe that the standard in total drives the auditor toward performing procedures that may not be necessary for the audited entity where the risk is generally low. It seems to be written for an audit of a listed company which operates in a complex environment where fraud may be an issue.

7. Member Bodies and Other Professional Organizations

Accountancy Europe

Disagree, with comments below

The circularity created by the links to other ISAs in an ISA hampers the scalability and understandability of the ISAs which should be considered altogether as a set of professional standards.

Although the ISA for LCE has been designed for less complex entities, ISAs are still applied to smaller entities often audited by small and medium sized practitioners (SMPs) and thus it is very important to maintain the scalability of ISAs.

California Society of Certified Public Accountants

Disagree, with comments below

We disagree that ED 240 is scalable to all entities as noted in previous comments.

Chamber of Auditors of the Czech Republic

Disagree, with comments below

We would welcome additional paragraphs focusing on SME/SMP. Much of the standard is focused on large companies and large audit teams (e.g. the application part to paragraph 35a). In addition, the application part to this paragraph seems to be focused mainly on what the entity should do; we believe that ISA shall rather focus on what the auditor is expected to do.

Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

Scalability

When it comes to scalability, some stakeholders raised concerns in regard to the drafting style of ED-240, which was described as being more relevant for larger firms auditing complex entities. Some argued that many of the requirements should be supported by the relevant Application Material (AM) guiding practitioners on how to apply them in the case of smaller audit.

Our responses to the specific questions for comment raised in ED-240 follow in Appendix

A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact the signatories

Disagree, with comments below

When it comes to scalability, some stakeholders raised concerns in regard to the drafting style of ED-240 which was described as being more relevant for larger firms auditing complex entities. Some argued that many of the requirements should be supported by the relevant Application Material (AM) guiding practitioners on how to apply them in the case of a smaller audit. In contrast, our stakeholders also raised concerns regarding the length of ED-240. We therefore suggest avoiding repetition particularly when some of the proposed requirements are also found in other standards, such as ISA 315 (Revised), and rather focus on providing scalable examples.

CPA Australia

Disagree, with comments below

Please refer to the above responses to Question 2 and Question 3 for scalability issues.

CPA Ontario Small and Medium Practices Advisory Committee

Disagree, with comments below

The IAASB has aimed to incorporate scalability into ED-240, but whether it has achieved this effectively is subject to some debate. The concerns often stem from how the standard can be applied by auditors of smaller entities without imposing the same level of burden that might be expected in the audit of a larger, public company.

While ED-240 is intended to apply universally, the specific guidance it provides may not always clearly distinguish between requirements that are essential for larger entities versus those that are feasible for smaller entities. This can lead to challenges in application, where smaller entities might struggle with the relevance or practicability of certain requirements.

Smaller entities and their auditors often operate with more limited resources. Implementing extensive fraud detection procedures as suggested in ED-240 could be disproportionately burdensome for these smaller entities. This could include the intensity of documentation or the depth of investigation into fraud risk factors, which might not be as critical in a smaller, less complex context.

The standard does consider proportionality, which is a component of scalability. This means that the requirements are intended to be applied in a manner that is proportionate to the size and complexity of the entity and the risk of material misstatement due to fraud. However, the practical guidance on how to achieve this proportionality is not always clear or straightforward, which might lead to inconsistencies in application.

While the IAASB typically aims to include examples and guidance to aid in the application of its standards, there might be a need for more detailed guidance targeted specifically at the application of ED-240 in smaller or less complex entities. This would help ensure that auditors can more easily scale their procedures according to the specific circumstances of the audit.

Providing more detailed and practical examples specifically tailored for audits of smaller entities could help in applying the standards more effectively. Further, offering additional training and resources focused on the application of fraud-related auditing standards in smaller entities could improve the ability of auditors to implement these standards appropriately.

There is room for improvement in ensuring that these considerations are clear, practical, and effectively communicated to auditors handling audits of varying sizes and complexities. This would help minimize the burden on smaller entities and their auditors, ensuring that the standards are both effective and efficient across all contexts.

European Federation of Accountants and Auditors for SMEs

Disagree, with comments below

We believe that scalability within the ISAs remains critically important and question whether the ED-240 is sufficiently scalable. We urge the IAASB to make the scalability considerations in ED-240 more explicit with more guidance provided to assist practitioners in application. We recognize that there is some discussion on scalability in the application guidance, but it is not clear what how these might shape the conduct of an SME audit performed by an SMP. More detailed guidance or examples are needed which can help improve the efficiency of an SME audit while ensuring the satisfaction of regulators.

Institute of Chartered Accountants in England and Wales

Further scalability concerns include:

The potential expectation that auditors will test the operating effectiveness of controls even in a fully substantive audit implied by ED-240 Para. 55 (Question 4)

The requirement of ED-240 Para. 55(a) for fraud-related enquiries with ‘a level of management that is at least one level above those involved.’ (Question 4)

The projected expansion of ED-240 requirements regarding transparency in the auditor’s report to audits of financial statements of entities other than listed entities (Question 6).

Disagree, with comments below

ICAEW notes that the ISA for LCE has been finalised. However, the ultimate arbiters of which entities are in scope are local audit regulators. It may not be adopted in some jurisdictions. It is therefore important that the ISAs remain scalable. IAASB should clarify whether and to what extent the revisions to ISA 240 will be incorporated into the ISA for LCE.

While we acknowledge a) IAASB’s efforts to signpost conditional requirements (as detailed in EM, Section 1-J, Para. 113(b)) and to include application material such as ED-240 Para. A58; and b) that fraud-related matters are relevant to audits of all entities, regardless of size or complexity, there are several scalability concerns that we believe are worthy of IAASB’s attention.

Scalability

ICAEW is not persuaded that ED-240 is sufficiently scalable.

Many stakeholders we consulted represented or had backgrounds in small and medium-sized audit firms. Their concerns lay primarily with ED-240’s forensic-related content which in practice is generally more applicable to larger firms. Although confined to the application material, with 12 references in ED-240 as opposed to one in the extant standard, the emphasis on forensic experts or individuals with forensic skills is hard to ignore.

Para. A34 of extant ISA 240 simply states that forensic experts may be engaged as part of the auditor’s response to identified risks of material misstatement due to fraud. This is appropriate. The pool of external forensic experts available to firms without their own in-house team is small, and non-existent in some jurisdictions. It remains the case that forensic experts are rarely used routinely outside large audits. The standard should make it clearer that not every audited entity or every instance of fraud necessarily calls for the involvement of forensic specialists, and that any involvement should be contingent on the auditor’s judgement and the circumstances of a given fraud. Regardless of IAASB’s intentions, the extensive

references to forensic specialists and skills in ED-240 could be read as diminishing the responsibility of auditors to exercise judgement in this area.

IAASB should condense and consolidate the proposed forensic-related material into fewer paragraphs which stress the need to base conclusions on the need for specialist engagement on the complexity of the fraud. Finer detail on how and when forensic specialists may assist in an audit could then be issued as non-authoritative guidance. If the auditor concludes that a forensic specialist is not required or appropriate, alternative procedures should be outlined, such as consulting with another auditor who has experience with corporate fraud.

Institute of Chartered Accountants of Jamaica

Disagree, with comments below

See comments in question 1 above.

It is important that the scalability of the standard be carefully considered having regard to the additional work required of the auditor and the cost implications for the clients, particularly small and medium clients in developing markets.

Institute of Chartered Accountants of Sri Lanka

Jurisdictions with developing markets will have difficulties in obtaining and retaining specialized resources, including forensic experts. Therefore, scalability in relation to application of these requirements needs to be reinforced, giving less complex jurisdictions the ability to scale down.

Disagree, with comments below

As stated in our response to question 4 above, jurisdictions with developing markets will have difficulties in concluding on fraud related matters. Therefore, scalability in relation to application of these requirements needs to be reinforced, giving less complex jurisdictions the ability to scale down. Even though some level of scalability is demonstrated in the exposure draft, it's not very clear as to how it could be practically used. (e.g. illustrative examples of wording of the KAM in such situations).

Further, since key outcomes of the ED are hard-coded (e.g. decoupling done in the audit report, proposed introduction of KAMs etc.), the real impact and use of scalability is questionable.

International Federation of Accountants

Disagree, with comments below

Scalability within the full ISAs remains critically important regardless of the creation of the ISA for LCE standard. The LCE standard may not be adopted in many jurisdictions and many smaller or less complex entities may still need to be audited under the full ISAs.

The scalability considerations in ED-240 should be made more substantive with more guidance provided to assist practitioners in application. While there is some discussion for scalability in application guidance, it is not clear what changes might actually be made for SMPs conducting SME audits. More detailed guidance or examples would be needed to allow SMPs to comfortably take advantage of these as there would otherwise be fear of regulatory challenge as the views of regulators may differ. It is essential to make expectations clear to protect SMPs from such challenge. There should be some indication given within the standard itself as well as in application guidance to ensure the standard substantively accommodates scalability.

Please also refer to our response to question 3 where we conclude there is insufficient guidance provided to make the proposals in ED-240 genuinely scalable, and that some of the logic underpinning the proposals relies on assumptions that may not represent the reality in SMEs.

Malta Institute of Accountants

Disagree, with comments below

The way that the ED is written might be interpreted that, when it comes to fraud, the requirements are the same for all entities irrespective of their size and complexity. We recommend that this ED takes into consideration that the design of the audit varies depending on the size and complexity of the entity, among other factors, in line with other ISAs.

Pan-African Federation of Accountants

Disagree, with comments below

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

Pennsylvania Institute of Certified Public Accountants

Disagree, with comments below

As noted in our response to question 4, the committee has concerns about the scalability of the requirements in paragraph 55 when an identified fraud is not material or is inconsequential.

9. Individuals and Others

Colin Semotiuk

Disagree, with comments below

No, ED-240 does not appropriately integrate scalability into a financial statement auditor's responsibilities relating to fraud. ED-240 removes scalability due to its high complexity and excessive breadth of requirements and guidance. This is demonstrated in the Appendices. One example is Appendix 1 which includes almost 100, (6 pages), of fraud risk factors for an auditor to "consider." It is not scalable to document and demonstrate that the auditor sufficiently considered and analyzed this breadth of factors. As noted to question 3, what happens when a fraud occurs, and all 90-100 factors/considerations in Appendix 1 were not documented in the audit file? What response does an auditor provide a judge as to why they didn't consider "use of business intermediaries for which there appears to be no clear business justification" as one of the opportunities for management to commit fraud, the consideration is clearly stated in ISA 240 (Revised)? Another example is Appendix 3 which has over 40 examples of circumstances that may be indicative of fraud. Including such a detailed and excessive listing of circumstances, can be interpreted as being all inclusive and brings unnecessary litigation risk to the profession. What legal defense does an auditor have if one, two or three of the Appendix 3 examples, (i.e. undue time pressures imposed to resolve complex or contentious issues, delays by the entity in providing requested information, and unexplained fluctuations in account balances), were identified by the auditor, however the auditor's professional

judgement did not conclude they were due to fraud when a fraud has occurred? These circumstances are not irregular and most often occur without fraud.

Q08 No response

1. Monitoring Group

International Forum of Independent Audit Regulators

International Organization of Securities Commission

2. Investors and Analysts

CFA Institute

No response

Corporate Reporting Users' Forum

No response

3. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

European Securities and Markets Authority

7. Member Bodies and Other Professional Organizations

Fraud Advisory Panel

No response

8. Academics

Accounting and Finance Association of Australia and New Zealand

No response

9. Individuals and Others

Dr. Rasha Kassem

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