

Fraud – Question 2

2.Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?

Q02 Agree**2. Investors and Analysts****CFA Institute**

Agree (with no further comments)

Eumedion

Agree (with no further comments)

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)

Instituto Mexicano de Contadores Publicos

Agree (with no further comments)

5. Accounting Firms**Crowe Global**

ED-240 does reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements. The modernization of this standard is welcomed by us, and the approach taken to professional skepticism is consistent with the IAASB's other recent standards.

Moore Global Network

Agree (with no further comments)

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

Agree (with no further comments)

Provincial Auditor Saskatchewan

Yes, ED-240 reinforces the exercise of professional skepticism about matters relating to fraud in an audit of financial statements.

Riksrevisionen (Swedish National Audit Office)

Agree (with no further comments)

7. Member Bodies and Other Professional Organizations

California Society of Certified Public Accountants

Agree (with no further comments)

Federation of Accounting Professions of Thailand

Agree (with no further comments)

Institute of Chartered Accountants of Ghana

Agree (with no further comments)

Institute of Chartered Accountants of Jamaica

Agree (with no further comments)

Instituto Nacional de Contadores Públicos de Colombia

Agree (with no further comments)

Malaysian Institute of Certified Public Accountants

Agree (with no further comments)

Pan-African Federation of 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)

Moises Gonzalez Mercado

Agree (with no further comments)

Q02 Agree with comments

1. Monitoring Group

International Forum of Independent Audit Regulators

Given the importance of auditors not concluding on individual items in isolation and performing a stand back assessment to determine if sufficient appropriate audit evidence has been obtained, we recommend the IAASB revisit the word 'intentional' that has been added throughout the application guidance. For example, ED-ISA 240, A22 should refer to possible management bias as a fraud risk factor as whether the possible management bias is intentional or unintentional may not be known until further audit procedures are performed. Similarly, A29 and A37 refer to related parties and/or transactions that were intentionally not disclosed; these examples as well as many of the other examples listed in the application guidance could be the result of fraud (i.e., the result of an intentional act), suspected fraud, or an error because management lacked the appropriate expertise. The determination of whether individual acts are indicative of an error,

fraud, or suspected fraud cannot be made in isolation and must be considered cumulatively. The determination requires the application of professional skepticism in evaluating all evidence obtained to conclude on whether the audit evidence is indicative of potential fraudulent behavior on the part of one or more individuals among management, those charged with governance, employees, or third parties.

2. Investors and Analysts

Corporate Reporting Users' Forum

Agree, with comments below

We agree that ED-240 generally enhances the auditor's exercise of professional skepticism. That said, we are not fully convinced by the IAASB's conclusion to remove the following sentence; "the auditor's preconditions, based on past experience, about the honesty and integrity of management and TCWG may serve to undermine the exercise of professional skepticism". We are not sure if this reference should be in fact removed or not. Paragraph 23 of the EM provides the reason for the deletion, but we do not understand why retaining this statement "may serve to undermine the exercise of professional skepticism". A detailed explanation is needed as to why the exercise of professional skepticism is to be undermined.

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Agree, with comments below

It reiterates the need for / importance of the Auditor to maintain professional skepticism at all times as it encourages a fresh perspective approach to audit engagements and seeks to eliminate being guided by events that might have occurred in the past and they may not necessarily be relevant for period under review in terms of identification of fraud related matters.

Canadian Public Accountability Board

Overall comments

CPAB is supportive of the positive steps that the IAASB has taken to improve the audit procedures related to fraud in an audit of financial statements. We performed fraud thematic reviews in 2019 and 2021, the results of which, included in communications issued in 2020 and 2022, support our comments in this letter. We agree more robust requirements are needed to promote consistent behavior and facilitate effective identification and assessment of risks of material misstatement due to fraud and to reinforce the importance of auditors exercising professional skepticism in fraud-related audit procedures throughout the audit. In addition, we support the proposed changes to the communication of key audit matters related to fraud.

Committee of European Auditing Oversight Bodies

Professional skepticism

The CEAOB welcomes the strengthening of requirements regarding the exercise of professional skepticism in relation to fraud throughout the audit of financial statements in ED 240. However, we have identified a number of areas where, in our view, further enhancements should be made.

In our January 2021 letter, we suggested that the use of stronger language in ISA 240 (such as "challenge", "question" and "reconsider") would be a good way to foster an appropriate mindset and action by the auditor. We remain of this view.

In paragraph 30 of ED 240, the IAASB should emphasize the importance for the auditor to investigate responses to inquiries of management and those charged with governance (TCWG) that are implausible in addition to those that are inconsistent. We note that implausibility is only mentioned as example of a risk factor.

We welcome the deletion of paragraph 14 of extant ISA 240 which stipulates that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine and that if conditions are identified the auditor shall investigate further. The IAASB should also remove this language in paragraph A24 of ISA 200, as it weakens the key message that the auditor is required to consider the reliability of audit evidence.

European Securities and Markets Authority

Professional Skepticism

ESMA agrees with the importance of exercising professional skepticism throughout an audit not only in the context of fraud but also when carrying out audit procedures or when obtaining audit evidence that do not specifically address fraud. The exercise of professional skepticism should be independent from past experiences and of whether the auditor or the audit team is already familiar with the audit engagement, the management or TCWG; for instance, because it is not its first year of an audit. In this respect, ESMA suggests that the IAASB considers making this point explicit (in a different sentence) in paragraph 19 of ED-240 or in the application material to the ED. For instance, ESMA suggests that the IAASB considers emphasizing that the apparent cooperation and the auditor past experience of the honesty and integrity of entity's management, TCWG or knowledge of the issuer's processes and internal control should not impact the level of professional skepticism that should remain high and be exercised in all circumstances.

ESMA is of the view that exercising professional skepticism is especially key in areas where the use of judgment or discretion by management is significant, such as (i) when there are no specific relevant reporting requirements dealing with certain topics (e.g., groups restructurings or business combinations under common control under IFRS), (ii) revenue recognition, (iii) assumptions and accounting estimates (e.g., impairment of non-financial assets and goodwill, level 3 fair-value measurement or the recognition and measurement of deferred tax assets arising from tax losses), (iv) assessing control, joint control and/or significant influence, and (v) related party transactions. Therefore, ESMA suggests that the IAASB considers these points more prominently by reinforcing the application guidance of the ED.

Lastly, ESMA considers that auditors should keep professional skepticism when performing the audit work by, among others, assessing the reliability and the relevance of information obtained, and which is intended to be used as audit evidence. In ESMA's view, exercising professional skepticism should imply, among others, evaluating and determining the authenticity of the documentation and information gathered during an audit. This could be particularly relevant when performing audit procedures in certain areas where fraud could be more commonly perpetrated such as the areas referred above, but also when carrying out confirmations or when assessing contradictory evidence. For this purpose, ESMA considers it would be relevant to provide auditors with further guidance on how to assess the reliability and authenticity of the external confirmations received in the ED (for instance, by including a link in paragraph 20 to ISA 500 Audit Evidence).

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specifically address fraud. The exercise of professional skepticism should be independent from past experiences and of whether the auditor or the audit team is already familiar with the audit engagement, the management or TCWG; for instance, because it is not its first year of an audit. In this respect, ESMA suggests that the IAASB considers making this point explicit (in a different sentence) in paragraph 19 of ED-240 or in the application material to the ED. For instance, ESMA suggests that the IAASB considers emphasizing that the apparent cooperation and the auditor past experience of the honesty and integrity of entity's management, TCWG or knowledge of the issuer's processes and internal control should not impact the level of professional skepticism that should remain high and be exercised in all circumstances.

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ESMA also considers that, given the increased importance of narrative information (for instance, in the context of sustainability reporting), the revised ISA on fraud may need to reinforce the audit procedures, the guidance on professional skepticism and on auditors' responsibilities when analyzing disclosures or narrative information. Corporate information is only relevant for users' decision-making if it can be understood. It is not sufficient that assets, liabilities, profit or loss or cash flows are recognized, measured and presented correctly in the financial statements if these transactions and the underlined accounting principles are not disclosed in a clear, comprehensive and informative manner. Intentionally failing to comply with disclosure requirements or intentionally providing unclear or ambiguous disclosures may indicate the existence or an intention to commit fraud in the financial statements. ESMA's experience is that fraud (whether resulting in material misstatement or not) often goes hand and hand with a lack of transparency of information and/or with misleading disclosures.

Financial Reporting Council – United Kingdom

Agree, with comments below

We support the proposed revisions that reinforce the exercise of professional skepticism. We recommend they are further enhanced by amending the requirement in paragraph 30 so that the auditor also investigates the reasons if responses to inquiries of management, those charged with governance or others within the entity appear implausible. Currently implausible responses are included in Appendix 3 as an

example of a circumstance that may be indicative of fraud – we believe it is a fundamental matter that should be covered in the requirements.

We suggest adding in paragraph A26 “Copy documents presented rather than originals” in the examples of conditions that, if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor. A company may have reasons for presenting a copy document rather than the original, such the original having been inadvertently destroyed or misplaced, but that should be a reason for the auditor to be alert to the possibility that the copy is not an authentic representation of the original.

Independent Regulatory Board for Auditors – South Africa

Agree (with no further comments)

On balance ED-240 adequately addresses the exercise of professional skepticism in relation to fraud in an audit of financial statements.

Our view is based on the fact that the auditor’s responsibility to exercise professional skepticism is clearly explained in paragraph 15 and A20-A24 of the overarching standard, ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, which is referenced in paragraph 8 of ED-240.

Irish Auditing & Accounting Supervisory Authority

Agree, with comments below

IAASA welcomes the strengthening of requirements regarding the exercise of professional skepticism in relation to fraud throughout the audit of financial statements in ED 240. However, we have identified a number of areas where, in our view, further enhancements should be made:

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

In paragraph 30 of ED 240, the IAASB should emphasize the importance for the auditor to investigate responses to inquiries of management and those charged with governance (TCWG) that are implausible in addition to those that are inconsistent. Implausibility is only mentioned as example of a risk factor in ED 240.

We welcome the deletion of paragraph 14 of extant ISA 240 which states that, unless the auditor has a reason to believe the contrary, the auditor may accept records and documents as genuine. The IAASB should also remove this language from paragraph A24 of ISA 200, as it weakens the key message that the auditor is required to consider the reliability of audit evidence.

4. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants

Agree, with comments below

We are supportive of the requirements related to maintaining professional skepticism, which is a critical aspect of considering fraud risk factors and addressing the risk of material misstatement due to fraud when performing an audit. We offer the following suggestions to further clarify and enhance the auditor’s responsibilities to maintain professional skepticism.

Professional Skepticism and Professional Judgment

Paragraph 12

We suggest adding additional language from extant ISA 240 to the end of paragraph 12 to reinforce that audit procedures that are effective for detecting error may not be effective for detecting fraud. While we recognize that ED-240 focuses on fraud and not error, it is difficult to bifurcate the two. The auditor cannot ignore that their responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error.

Professional Skepticism and Professional Judgment

12. In accordance with ISA 200, the auditor is required to plan and perform the audit with professional skepticism and to exercise professional judgment. The auditor is required by this ISA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud to the auditor's attention. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit, considering the potential for management override of controls, and recognizing that audit procedures that are effective for detecting error may not be effective in detecting fraud. (Ref: Para. A13–A14)

Professional Skepticism

Paragraph 19

We recognize that paragraph 23 of the explanatory memorandum of ED-240 explains that the IAASB believes that referring to the auditor's preconceptions based on past experience about the honesty and integrity of management and those charged with governance may serve to undermine the exercise of professional skepticism. However, we continue to believe that it is important to specifically reinforce with auditors that maintaining professional skepticism is critical, notwithstanding the auditor's past experience. Therefore, we recommend the following language from extant ISA 240 be included in paragraph 19 of ED-240.

19. In applying ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A24–A25)

Paragraph 20 and Related Application Material

Paragraph 20

As discussed in paragraph 25 of the explanatory memorandum to ED-240, the IAASB removed the lead-in sentence to paragraph 20 due to concerns that it might undermine the requirement for the auditor to respond appropriately when conditions are identified that indicate a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. This decision was influenced by the existence of paragraph A24 of ISA 200, which already states that auditors may accept records and documents as genuine unless they have reason to believe otherwise. However, we firmly believe that this language should also remain within the requirements of ED-240 to clarify the auditor's work effort as it pertains to considering the authenticity of records or documents obtained during the audit, consistent with the intent of the requirement as described in the application material.

20. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A26–A28)

Paragraph A26

We agree that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate a record or document may not be authentic. Accordingly, we recommend that the introduction to the examples in paragraph A26 better align with this view and avoid using “Conditions that, if identified,” This language might inadvertently lead auditors to believe that the paragraph applies only when conditions are explicitly identified by the auditor. Instead, any conditions that, “if they come to the auditor’s attention,” should prompt the application of paragraph A26.

A26. The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that

a record or document may not be authentic or that terms in a document have been modified. However, audit procedures performed in accordance with this or other ISAs, or information from other sources, may bring to the auditor’s attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. Paragraph 20 applies if the auditor identifies such conditions during the course of the audit.

Examples:

Conditions that may indicate if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor. include:

Unexplained alterations to documents received from external sources.

Serial numbers used out of sequence or duplicated.

Addresses and logos not as expected.

Document style different to others of the same type from the same source (e.g., changes in fonts and formatting).

Information that would be expected to be included is absent.

Invoice references or descriptors that differ from other invoices received from the entity.

Unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms (e.g., purchase costs that appear unreasonable for the goods or services being charged for).

Information that appears implausible or inconsistent with the auditor’s understanding and knowledge.

A change from authorized signatory.

Electronic documents with a last edited date that is after the date they were represented as finalized.

Paragraph A28

We suggest the following content be included in paragraph A28 to further explain the auditor’s responsibilities for verifying the authenticity of documents or that terms in a document have been modified but not disclosed to the auditor (such as undisclosed side agreements). Further, we recommend the IAASB consider including these concepts in ISA 500 (Revised) as the audit evidence project is finalized.

A28. An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as, or expected to be, an expert in such authentication. When the auditor identifies When conditions are identified that cause the auditor to believe that a record or document may not be authentic, or that terms in a document may have been modified but not disclosed to the auditor, or that

undisclosed side agreements may exist, the auditor may determine that additional audit procedures are necessary including audit procedures to evaluate authenticity. Such possible additional audit procedures to investigate further may include...

Auditing and Assurance Standards Board Canada

Agree, with comments below

We agree the proposals in ED-240 reinforce the exercise of professional skepticism about matters related to fraud in an audit of financial statements. However, we noted some application challenges which would benefit from clarification and guidance.

Documentation of professional judgment

While we believe the documentation requirement in paragraph 70(c) is clear, our outreach indicated that auditors interpret paragraph 70(c) as requiring documentation of all judgments related to fraud risk factors that did not result in a material misstatement due to fraud.

Suggest:

Adding application material to paragraph 70(c) similar to paragraph A241 of ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, (see below) to be explicit that not every fraud risk factor requires documentation.

“However, the auditor is not required to document every inherent fraud risk factor that was taken into account in identifying and assessing the risks of material misstatement due to fraud at the assertion level”

Alternatively, Appendix 1 could clearly state that auditors are not expected to use the examples as a checklist for documentation, particularly if the fraud risk factor is not relevant to the nature and circumstances of the entity.

Application of professional skepticism in practice

Paragraph 5(c) of the IAASB’s Explanatory Memo states the changes to the standard are intended to “reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures.” However, improving the auditor’s application of professional skepticism comes as a result of behavioral changes. We heard concerns about how this can be demonstrated in practice. We believe implementation guidance plays an important role in showing auditors practical examples of how professional skepticism can be demonstrated relating to fraud in a financial statement audit.

Suggest:

Creating implementation guidance with examples that demonstrate the practical application of professional skepticism related to fraud. Examples of circumstances where we believe it is important to demonstrate professional skepticism include:

Improper recognition of revenue (e.g., premature revenue recognition);

Related party relationships and transactions;

Frequent adjustments (e.g., before month or year-end) and subsequent reversal of adjustments;

Inadequate segregation of duties in internal control; and

General IT controls, especially when deficiencies are identified (e.g., inappropriate super user access).

Other suggestions:

Through our outreach and detailed review of the proposed revisions, we have identified other editorial suggestions that can improve the clarity and understandability of ED-240.

Consistency of terms

One of the objectives of the project proposal was to clarify the auditor's responsibilities relating to fraud. Paragraph 21 says "The auditor shall remain alert throughout the audit for information that is indicative of fraud or suspected fraud." However, the introductory sentence to Appendix 3 is a clearer explanation of the auditors' responsibilities relating to fraud; instead of saying "indicative of fraud or suspected fraud" it says, "circumstances that may indicate the financial statements may contain a material misstatement due to fraud."

Also, the supporting application material paragraphs A29-A32 and Appendix 3 refer to "information" or "circumstances" that may be indicative of fraud. It is unclear in paragraph 21 whether an auditor shall remain alert throughout the audit to 'circumstances' that are indicative of fraud or suspected fraud.

Suggest:

Referring in paragraph 21 and the title of Appendix 3 to "material misstatement due to fraud" instead of "indicative of fraud."

Including a reference in paragraph 21 to "circumstances."

21. The auditor shall remain alert throughout the audit for information or circumstances that indicate is indicative that the financial statements may contain a material misstatement due to of fraud or suspected fraud.

Appendix 3 - Examples of Circumstances That May Be Indicative of Fraud Indicate the Financial Statements May Contain a Material Misstatement Due to Fraud

Australian Auditing and Assurance Standards Board

Agree, with comments below

The AUASB considers ED-240 appropriately reinforces the exercise of professional skepticism about matters relating to fraud in an audit of financial statements. However, the IAASB should consider:

Adding application material to enhance the requirement in paragraph 21 of ED-240 for the auditor to 'remain alert' to information throughout the audit that may indicate a risk of fraud. The auditor should be more proactive and challenging but there should not be a requirement to consider fraud in relation to all information as this would create an unduly burdensome documentation requirement.

Reinstating the text from extant ISA 240 paragraph 13 "notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance" to remind the auditor to set aside any potential biases and encourage the exercise of professional scepticism.

Limiting ED-240 paragraph 21 to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud so that it is clear that the auditor is not required to always undertake extensive fraud related procedures throughout the audit.

The second sentence in paragraph 14 of extant ISA 240 on authenticity of documents remains in paragraph 20 of ED-240 - 'If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor

shall investigate further.’ The AUASB is supportive of the removal of the first sentence in paragraph 14 of the extant ISA 240 and in ISA 200 - ‘Unless the auditor has reason to believe the contrary, the auditor may accept records as genuine’.

The use of the word ‘possibility’ through ED-240, for example in paragraphs 12 and 19, could be interpreted as potentially broadening the auditor’s role and responsibilities. Paragraph 19 should be more closely aligned with ISA 200, which states, “The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.”

Austrian Chamber of Tax Advisors and Public Accountants

Agree, with comments below

Comments relating to para. 12:

We appreciate the clarification and more extensive explanations as further elaborated in the explanatory memorandum.

Comments relating to para.13:

Also, we appreciate the clarifications regarding the extent of professional judgment that it is to be exercised during all phases of the audit.

However, we note, that the statements made in para. 12 and 13 are of a very fundamental nature and one could very well argue that such general statements should be included in ISA 200 that addresses such overarching matters without being prescriptive of specific procedures or requirements.

We note that the response template does not cover para.16 through 18, which include effective date, objectives, and definitions.

Comments relating to para.18 (Definitions):

While we have not noted any flaws or needs to comment, we believe that the definitions of fraud can be viewed differently in different jurisdictions as the underlying legal concept differs. Even attempted fraud may be legally punishable. Please refer to Question 4 for further comments.

Regarding para.19 through 21:

We do not see a specific need to comment on the content of the para. itself and the application material that is referred to. The application material repeats most of what is already standard guidance and literature and we do not suggest any changes to the content.

However, one may find it easier to be provided with a more detailed link from the application material to the respective requirement in the standard itself as the only link from the application material to the standard is the heading covering all paragraphs from A24 to A32.

Hong Kong Institute of Certified Public Accountants

Agree, with comments below

The IAASB reinforces the exercise of professional skepticism in ED-240 by retaining in ED-240.19 the requirement stated in paragraph 13 of the extant ISA 240 emphasizing the importance of auditors maintaining professional skepticism throughout the audit and removing the reference to the auditor’s preconceptions based on past experience about the honesty and integrity of management and TCWG, as it may serve to undermine the exercise of professional skepticism (ref: paragraph 23 of the EM). Our stakeholders believed that the auditor’s past experience about the honesty and integrity of management and

TCWG is one of the factors that could provide insights into the possibility of fraudulent transactions of the audit client and hence it should be retained in ED-240 by aligning the requirement in ED-240.19 with paragraph 13 of the extant ISA 240.

In addition, according to paragraph 25 of the EM, the IAASB suggested removing “Unless the auditor has reason to believe the contrary” from paragraph 14 of the extant ISA 240 as the same sentence is included in paragraph A24 of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing - “The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary” and it is unwarranted to repeat the same sentence in ED-240.20. Given that ISA 200 and ED-240 are two separate pronouncements with different objectives, we consider it is necessary to retain the sentence “Unless the auditor has reason to believe the contrary” in ED-240.20 to ensure consistency in the application of the ISAs.

Furthermore, ED-240.28 requires the auditor to perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates. Similar requirement in paragraph 33(b)(ii) of the extant ISA 240 highlights that the auditor shall perform a retrospective review of management judgments and assumptions related to “significant” accounting estimates reflected in the financial statements of the prior year. The exclusion of “significant” in ED-240.28 may imply that all accounting estimates, regardless of their nature and inherent risks, must be reviewed by the auditors. Therefore, it is suggested that the IAASB clarify its intention regarding the scope of the retrospective review necessary to fulfil the requirement as proposed in ED-240.28 (i.e. whether it is intentionally extended to all accounting estimates) and highlight in the Basis for Conclusion the rationale for the difference in the scope of the retrospective review as required by the extant ISA 240 and ED-240.

Instituto de Auditoria Independente do Brasil

inclusion of further guidance within application material related to the importance of having robust discussion with management, involvement of more senior team members and challenge management and others, as appropriate; and further discussion on the potential implications for the audit that may arise from the auditor’s understanding of management’s honesty and integrity

expand guidance in relation to Para. 21, so that it is clear auditors should remain alert for information that is indicative of fraud. This includes remaining alert both to circumstances that may be indicative of fraud and events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (connection with fraud risk factors)

taking into account the risk of management override within Para. 23 when determining the nature, timing and extent of direction, supervision and review

clarify the intentions with regards to expectations of the auditor in relation to the “authenticity” of records and documents as discussed in Para. 20 and A26, and its interaction with ED-500 and base principle that will remain in ISA 200. Expand when conditions that cause the auditor to believe that a record or document may not be authentic come to the auditor’s attention, these conditions affect the reliability of audit evidence pursuant to ISA 500.

Agree, with comments below

We also recommend the following, aiming the auditor’s exercise of appropriate professional skepticism with respect to fraud:

retaining Para. 13 and 16 from the extant standard as it relates to “honesty and integrity of management and TCWG” as those are helpful to remind auditors to potential biases from past experience, to drive a mindset

in which auditors are able to identify and reflect on their potential biases and consciously set them aside and could include guidance specific to how such biases could negatively affect the effectiveness of the auditor's identification, assessment and response to fraud risks.

Japanese Institute of Certified Public Accountants

Agree, with comments below

We agree with the proposals because we believe that ED-240 reinforces the exercise of professional skepticism about matters relating to fraud in an audit of financial statements.

In paragraph 20 of this ED, which sets out the requirements for authenticity of records and documents, it is proposed to delete the lead-in sentence of the extant ISA 240 paragraph 14: "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." We agree with this proposal on the basis that a similar statement remains in paragraph A24 of ISA 200, and paragraph A26 of this ED indicates that no change has been made from the existing approach to authenticity of records and documents by explaining that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that the terms in a document have been modified.

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

Agree, with comments below

We agree that ED-240 reinforces the exercise of professional skepticism about fraud-related matters in an audit of financial statements. We found the addition of examples in the application material helpful to apply professional skepticism.

In paragraph 19 we are concerned with use of the words "possibility that a material misstatement due to fraud could exist." Based on the common meaning of "possibility," it could be misinterpreted to broaden the role and responsibilities of the auditor. Paragraph 19 starts, in applying ISA 200... We therefore encourage the IAASB to more closely align the wording of paragraph 19 with ISA 200, which states, "The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated." We also consider that the requirements in paragraphs 19 and 21 are related and therefore recommend combining these paragraphs.

In paragraph A26, we recommend adding the wording "Examples of conditions...". We acknowledge the heading "examples", however our concern is that without the reference to examples in the lead-in sentence to the bullet points, the examples risk becoming a checklist.

While we support the efforts of the IAASB in integrating scalability considerations in ED-240, in our view, more could be done to address scalability.

For example, the examples in paragraph A29 mainly apply to larger, more complex entities (such as references to audit committee, internal audit function and whistleblower program) lacking scalability for smaller entities. We encourage the IAASB to include examples relevant to smaller entities to better address scalability.

Nordic Federation of Public Accountants

Agree, with comments below

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

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

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

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

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

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

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

Royal Dutch Institute of Chartered Accountants

Agree, with comments below

Positive remarks:

Compliments for stressing the importance of maintaining professional skepticism and the examples of:

pressure on the engagement team;

impediments imposed by the client creating difficulties for the engagement team;

conditions that may cause the auditor to believe that records or documents are not authentic;

the firm's commitment to an effective system of quality management that underpins professional skepticism of the individual;

sources of information indicative of (suspected) fraud and

the usefulness of using forensic skills (ED-240 par. A34 / A35).

Constructive critical remark:

We suggest IAASB to give more guidance/emphasis on considerations relating to involving forensic expertise in par. 13, 'when the auditor identifies fraud or suspected fraud....'. In par. A13 a reference is made to ISQM 1 and the firm's system of quality management ['.... ,such as resources with the appropriate specialized knowledge and skills that may be needed when performing audit procedures relates to fraud...']. Par. 22 states that the engagement partner determines whether those specialized skills, such as forensic expertise, is needed for the audit engagement. We suggest IAASB add application material to help audit firms to define criteria supporting the engagement partner to determine when additional forensic or other experts are needed.

Regarding 'conditions' in par. 20 ('If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.'): this threshold should be as low as possible in order to prevent the engagement team first defining situations before acting as required. In this respect we suggest the IAASB to refer to ISA 200, par. A23.

Saudi Organization for Chartered and Professional Accountants

Although the proposed requirements in ED-ISA 240 enhance transparency, there is a high risk that this could expose auditors and the audit profession to unintended consequences. The proposed revisions in ED-ISA 240 emphasize on the idea that it is the responsibility of management and those charged with governance to prevent and detect fraud and maintain the compliance with the applicable laws and regulations. And the auditor should consider the risks of fraud or suspected fraud and assess their materiality and their impacts on the audit process, including whether to continue the audit engagement or not; and the proposed revisions in an acknowledgement of auditors' scope of expertise emphasized on consulting a legal counsel and other experts with relevant expertise. Accordingly, auditors' communication of such material fraud or fraud suspected issues to the appropriate level of management or those charged with governance, or authoritative bodies (if applicable and aligned with the confidential principle) might be considered sufficient to serve the interest of the stakeholders. Disclosing such matter whether in a statement or under specific subheading in the audit report may result in unintended consequences including increasing the complexity of audit-client relationship in a harmful way, exposing auditors to unbearable liability risks, increasing the audit costs (audit fees), and blur the understanding of the auditor's responsibility. For instance, the application material (A173) stressed on the idea that auditors should "avoid standardized or generic" language when describing material fraud issues as a Key Audit Matter (KAM), and encouraged more reliance on describing the specifics in order to make the information more relevant to the indented users. This may eventually result in unintended legal consequences. At the same time, it is left to auditors to obtain legal consulting regarding their approach to assess, respond and report with regard to fraud risks. Therefore, more illustrations are needed to consider and explain the expanded responsibilities associated with such reporting requirements. For instance, the proposed application material (A176) presumes that an auditor of a listed entity would normally be expected to consider at least one KAM related to fraud.

Taking into consideration our comment on question number 4, the proposed application material (A178) explains that an auditor should utilize professional judgment to assess whether including a statement about fraud issues in the audit report would outweigh the public interest benefits or not. This idea might be difficult to be operationalized in practice, more illustration may help.

Agree, with comments below

SOCPA supports the proposed revisions in ED-ISA 240 which add important clarifications to the importance of exercising and maintaining professional skepticism throughout the audit process and, in specific, while assessing fraud related risks. We also support the approach used in the proposed revisions in ED-ISA 240 to emphasize on the idea that “using automated tools and techniques does not replace the need to maintain professional skepticism and to exercise professional judgement...” (see A9). And we believe that this idea is important and should be enhanced throughout the other ISAs as well.

In the audit literature, there is a discussion about the type of position that auditors should embrace to exercise professional skepticism; whether they should assume the “presumption doubt” or “neutral doubt”. It has been acknowledged that usually the audit standards (ISA 240) covering the topic of auditors’ role and responsibilities for fraud in an audit of financial statements encourage auditors to embrace the “presumption doubt”. The proposed revisions in ED-ISA 240 encourage both; “neutral doubt” while approaching the audit evidence whether corroborating or contradicting the management, and “presumption doubt” when assessing the fraud risks related to revenue recognition (see, for instance, paras 41 and 43). We believe that the board should encourage in this standard, which focuses on fraud risks, auditors to embrace “presumption doubt” not only when they assess the risks related to revenue recognition, but also when they assess other different fraud risks (e.g. control override), and the audit evidence. While emphasizing on the “presumption doubt”, the standard should highlight that such stance/position should be embraced more when an auditor becomes aware of fraud risk factors. This dilemma whether to maintain a “presumptive” or “neutral” doubt while designing and conducting audit procedures in response to fraud risks should be clarified more in the drafting of the proposed revisions in a more consistent manner.

Wirtschaftsprüferkammer

Yes, in principle we agree with the proposals, since professional skepticism within the audit process is a fundamental principle adhered to by every conscientious auditor. However, this professional skepticism, which is deeply ingrained in the profession, does not just rely on following rules and standards. It is developed through thorough training, strong independence, and sharp intuition.

The essence of auditing lies not just in following prescribed auditing standards but in exercising professional judgment, professional skepticism, and discernment throughout the entire audit engagement. While standards provide a framework, it is the auditor’s skill set, attitude, and ability to navigate complexities that truly drive the effectiveness of the financial audit.

Professional skepticism is nurtured through experience, continuous learning, and a commitment to upholding the highest standards of integrity and professionalism. It involves challenging assumptions, probing for inconsistencies, and maintaining a cautious eye for potential risks or discrepancies. These qualities, improved over time, empower auditors to fulfil their mandate of providing reliable and objective assurance to stakeholders.

In essence, while we support the proposed enhancements, it is crucial to recognize that the essence of professional skepticism and critical thinking in auditing exceeds mere adherence to standards; it is a

multifaceted attribute cultivated through a combination of education, experience, and ethical integrity. Imposing burdensome requirements does not necessarily support this approach.

5. Accounting Firms

BDO International

Agree, with comments below

In general, we believe that ED 240 emphasizes the importance of exercising professional skepticism adequately, through applying a fraud lens. As fraud is one of the most important topics of an audit, and of main importance for external stakeholders / the general public, we believe it helps to summarize the most important principles about professional skepticism of other ISAs in this ED-240. This is because professional skepticism must be applied throughout the audit.

We understand that professional skepticism is a critical attitude or mindset that needs to be shown by individual members of the audit team, including the engagement partner. Therefore, professional skepticism is related to the personal behavior of individual team members. However, we believe that this critical attitude and mindset at an individual level is also driven by the organization and culture of the engagement team's firm. We believe that the involvement of forensic experts helps teams to develop their professional skepticism and to maintain a critical mindset during the audit. With that in mind, we believe that ISQM 1 helps to set the correct mindset and attitude. In paragraph 240.A13 a reference is made to ISQM 1 and the firm's system of quality management. Further, paragraph 240.22 states that the engagement partner determines whether specialized skills, such as forensic expertise, are needed for the audit engagement. We believe firm-wide criteria in accordance with ISQM 1 should be defined and/or resources provided in application material to help the engagement partner determine when additional forensic or other experts are needed.

CohnReznick

Agree, with comments below

Overall, we are supportive of the expansion of the proposed application guidance to reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements, including the examples. We believe this will be useful and informative to auditors. We do have concerns with the removal of the explanatory language in the first line of extant ISA 240 paragraph 14 which reads "An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication." We believe that this language, even though it is in extant ISA 200, provides important context for the auditor and we recommend the wording be reinstated.

We also note the wording in extant ISA 240.6 has been placed as application material in ED240.A12 but without the sentence below. We recommend this be reinstated as it provides important context, ED-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.

Crowe

Agree, with comments below

We believe it is appropriate to emphasize professional skepticism to help auditors remain alert to possible fraud and exercise professional skepticism throughout an audit. We are in favor of this proposal from the

perspective that auditors should be alert for indications of fraud or possible fraud and “apply a fraud lens” when performing risk assessment and further audit procedures.

As noted in our response to Question 1, we believe that education of financial statement users about reasonable expectations related to the auditor’s responsibilities for fraud is very important.

Authenticity: Related to authenticity, as noted in the proposal, “In revising the requirement in paragraph 14 of extant ISA 240 (see the corresponding requirement in paragraph 20 of ED-240), the IAASB proposes to delete the explanatory lead-in sentence: “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine”, in part because “Paragraph A24 of ISA 200 already includes the sentence “The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.” We believe this language is important in the context of the auditor’s responsibility related to fraud, especially considering the examples included in paragraph A26 of ED-240 related to authenticity. Therefore, we recommend that the deleted explanatory lead-in sentence should be reinstated in paragraph 20 of ED-240, modified to be consistent with the language in paragraph A24 of ISA 200. If this is not done, we recommend the inclusion of a cross-reference in paragraph 20 of ED-240 to paragraph A24 of ISA 200.

Deloitte

Agree, with comments below

We are supportive of reinforcing the exercise of professional skepticism about matters relating to fraud in an audit of financial statements and recognize the efforts of the IAASB to do so through ED-240. However, we have several recommendations about certain paragraphs addressing professional skepticism within ED-240:

We believe there should be consistency in how professional skepticism is described in the ISAs, including consistency with the definition of professional skepticism as stated in ISA 200, as well as to incorporate information that provides guidance on how the definition is applied (consistent with the structure of the ISAs) into the application material to paragraph 19 of ED-240. Accordingly, we recommend the edits below:

Paragraph 19: “In applying ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist.”

Paragraph A24: “Maintaining professional skepticism throughout the audit involves requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as audit evidence and identified controls in the control activities component, if any, over its preparation and maintenance. Due to the characteristics of fraud, the auditor’s professional skepticism is particularly important when considering the risks of material misstatement due to fraud.”

ED-240, paragraph A25, Example Box, includes the same two examples of impediments to the exercise of professional skepticism at the engagement level as those in ISA 220 (Revised), Quality Management for an Audit of Financial Statements, paragraph A34, except paragraph A25 differs only by the inclusion of a statement that “These circumstances were, based on the engagement partner’s professional judgment, indicative of possible efforts by management to conceal fraud”. As these examples give no context to the fraud being concealed, we recommend that paragraph A25 of ED-240 refer to ISA 220 (Revised) only, and that these examples be removed.

Paragraph A26: “The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have

been modified. An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication. However, audit procedures performed in accordance with this or other ISAs, or information from other sources, may bring to the auditor's attention, through the exercise of professional skepticism, conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. Paragraph 20 applies if the auditor identifies such conditions during the course of the audit."

We believe that certain existing language (bolded and underlined below) should be carried forward, with some minor edits, to ED-240, as it serves a key function in delineating the auditor's responsibilities and inherent limitations in detecting fraud, the removal of which may signal an expansion in the auditor's role, which we note to be at odds with the IAASB's intent: See, for example, the IAASB's statement in the EM that removal of certain language in the extant standard "is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained during the audit."

Paragraph 20: "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A26–A3228)"

Ernst & Young Global

Agree, with comments below

Professional skepticism

While we agree that ED-240 reinforces the exercise of professional skepticism about matters relating to fraud, we suggest that the IAASB reinstate the last part of the extant requirement in ISA 240 paragraph 13 ("...recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance") to paragraph 19 of ED-240, as we do not agree this statement undermines the exercise of professional skepticism (as stated in paragraph 23 of the Explanatory Memorandum to ED-240). Instead, we believe this statement is an important part of the requirement, reminding auditors that they should not get too comfortable and solely rely on past experience with management and those charged with governance (as stated in extant ISA 240 paragraph A9) and should recognize there may have been changes in circumstances.

In addition, although we are supportive of paragraph A25 of ED-240 that references the application material in ISA 220 (Revised) dealing with time pressures on the audit, we believe this application material is too narrowly focused. We believe more could be done in ED-240 to emphasize risks related to auditor bias. The enhanced guidance on types of auditor biases included in paragraph A35 of ISA 220 (Revised) is useful and could be supplemented in ED-240 with guidance specific to how such biases could negatively affect the effectiveness of the auditor's identification, assessment and response to fraud risks.

Additionally, paragraph 30 of ED-240 outlines the auditor's responsibilities when the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity, are inconsistent with each other. We note that this consideration is no longer presented as part of the Professional Skepticism section as it was in extant ISA 240 and is instead included in the Understanding the Components of the Entity's System of Internal Control section of ED-240. We continue to believe that this requirement is better placed in the professional skepticism section of ED-240

(paragraphs 19-21) because it should not be limited in application to only inquiries performed in conjunction with risk assessment procedures.

Finally, we note that paragraph A9 of ED-240 cautions the auditor on the need to maintain professional skepticism when using automated tools and techniques. We believe that, equally, the use of automated tools and techniques can enhance an auditor's professional skepticism through their deeper understanding of the entity's business model, their ability to identify anomalous or unusual transactions and their ability to ask more directed questions of the entity. We believe that the enhancement of professional skepticism should also be explained.

Authenticity of records and documents

Paragraph 25 of the Explanatory Memorandum (EM) explains that the rationale for deleting the explanatory lead-in sentence of paragraph 14 of extant ISA 240 "Unless the auditor has reason to believe the contrary, the auditor may accept records as genuine" is in part because paragraph A24 of ISA 200 already includes this sentence. Although we agree with the deletion of this phrase in the requirement, we also agree with the IAASB's statement in the EM that there should not be an increase in the work effort of the auditor. We view paragraph A24 of ISA 200 as important context to the revised requirement in paragraph 20 of ED-240 for the auditor to investigate any identified conditions that call into question the authenticity of a record or document. Because the explanatory guidance removed from the lead-in is now only located in a different ISA, this guidance could be easily overlooked. Accordingly, we suggest that the IAASB include the statement from, or a reference to, ISA 200 paragraph A24 within paragraph A26 of ED-240 to appropriately link the two standards on this concept.

In addition, we note that paragraph A27 of ED-240, which supports paragraph 20, indicates that ISA 500 includes authenticity as an attribute of the reliability of information. While we acknowledge that paragraph A56 of ED-500 introduces attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable, extant ISA 500 does not include these attributes and we believe it is premature to introduce the concept of attributes ahead of the final revisions to ISA 500. We therefore propose the deletion of paragraph A27 of ED-240, and, in its place, we propose expanding A26 of ED-240 to explain that when conditions that cause the auditor to believe that a record or document may not be authentic come to the auditor's attention, these conditions affect the reliability of audit evidence pursuant to ISA 500.

Finally, we note that paragraph A28 of ED-240 outlines additional audit procedures that the auditor may perform when they have concerns that a record or document may not be authentic or that terms in a document have been modified. We believe that it is important to note that when those further procedures lead the auditor to identify an alteration of documents, then that circumstance may be considered a suspected fraud and subject to the considerations in paragraph 55 of ED-240.

Forvis Mazars

Agree, with comments below

Although the proposed changes relating to professional skepticism seem reasonable in and of themselves, it is not clear whether the changes will necessarily drive different or better auditor behaviour in practice given that auditors already apply skepticism. Indeed, it is questionable whether standards are an effective means of achieving changes in a behavioural trait or attitude, such as skepticism, and merely peppering the standards with the word "skepticism" will not necessarily achieve the desired outcome.

We do not support removing the reference in ISA 240.14 to the ability to accept records as genuine and unmodified unless the auditor suspects the contrary. This may create an expectation that auditors will treat every record or document as potentially fraudulent, and the associated guidance and examples in ED-240.A26-A27 may be seen as additional de-facto “requirements” when assessing the reliability/authenticity of evidence, as it is not unusual to see the content of application material to be considered a requirement/good practice by regulators and others. Furthermore, it may not be possible for the auditor to discern the conditions listed in the application guidance. It would also be helpful to clarify that the auditor is not required to consider all of these factors in reviewing records or documents.

We support removal of the reference to preconceptions based on past experience of the honesty and integrity of management and TCWG (extant ISA 240.13), given the need to approach each audit anew.

Grand Thornton International

We do not agree with revisions to ED-240, paragraph 20. The auditor’s role related to the authenticity of documents is pervasive to the audit and belongs in ED-240, not in ED-500. The auditor’s role, which differs with respect to the integrity of information, is not to evaluate the authenticity of every document intended to be used as audit evidence. Rather, if the auditor becomes aware of concerns regarding the authenticity of a document when performing audit procedures over the relevant attributes, the auditor reevaluates both the use of that information and whether there is a fraud risk. When authenticity is listed as an attribute of audit evidence (as proposed in the last draft of ED-500), on the same level as the attributes of completeness and accuracy, for example, the standards create a disconnect between the risk of fraud and the risk that a document is not authentic. The proposed revisions to ED-500 that focus on authenticity appear to contradict the auditor’s responsibility related to identifying and assessing fraud risks. We believe that the revisions in the last draft of ED-500 will cause confusion as to the intent of how auditors are expected to consider and address authenticity. We believe the IAASB should:

Revert paragraph 20 in ED-240 to the existing requirement in ISA 240, paragraph 14

Remove the requirement to evaluate the risk of material misstatement due to fraud in ED-500, paragraph 12A

Remove authenticity as an attribute of audit evidence in ED-500, paragraph A56

Remove the guidance in ED-500, paragraphs A44, A50, A56D, A56F – A56H, and revise the example in the last bullet of ED-240, paragraph A80 to discuss examples related to another attribute of audit evidence

Agree, with comments below

We believe ED-240 appropriately reinforces the exercise of professional skepticism throughout the audit as it relates to matters relating to fraud in an audit of financial statements, see Question 10 for our response related to the proposed revision to ED-240, paragraph 20.

KPMG International

We suggest that the IAASB retain the wording (included at paragraph 13 of the extant standard), of “notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance”, in discussing the concept of professional skepticism, either at paragraph 19 itself, or in the related application material at A24-25. Similarly, we recommend retaining the wording (included at paragraph 16 of the extant standard) of “setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity”, with reference to the discussion among the engagement team. Rather than undermining the exercise of

professional skepticism, we believe that these statements are helpful to remind the auditor to set aside any potential biases resulting from past experience or beliefs in respect of management and those charged with governance. As professional skepticism is a mindset/behaviour, that is adaptive to the entity's circumstances and risk environment, we believe it is helpful to include such reminders more explicitly within the standard to drive a mindset in which the auditor is able to identify and reflect on their potential biases and consciously set them aside. We note that proposed revised ISA 500, Audit Evidence, includes material discussing potential auditor biases and therefore inclusion of this material would align with the IAASB's intention to increase auditor awareness of these. Accordingly, the IAASB may consider identifying these specifically as "biases" rather than preconceptions, to align with descriptions elsewhere in the ISAs, and cross-reference to other material in the ISAs, e.g., in proposed ISA 500R, once issued;

We recommend improved linkage to ISA 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors), in particular, to address frauds that arise at components and to highlight the importance of involvement of component auditors in terms of the exercise of professional skepticism, given their greater knowledge of the component environment, including local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards and established business customs/practices. This may be of particular importance when the component is in a jurisdiction that is considered to be "higher risk" because, for example, it involves a rapidly changing regulatory and business landscape and is subject to heightened fraud risks. We note that the UK ISA 240 includes references to groups at various points in the standard in respect of exercise of professional skepticism, e.g., in relation to identification of matters to discuss with component auditors, during the engagement team discussion; We welcome the additional material in respect of making inquiries of management at A89-91. To further enhance this important aspect of the audit, we recommend that the application material include further discussion of matters such as holding robust discussions with management (which could be cross-referred to earlier application material regarding the involvement of more experienced team members), and the importance of appropriate challenge of management. Whilst there are references to matters such as inconsistent evidence, we consider it would be helpful to use more active language to help drive more robust and meaningful discussions with management, and with others, as appropriate. In addition, such material could be cross-referenced to discussion in the standard regarding inconsistent responses to inquiry, and false representations (e.g., at paragraph 30) and the implications for the audit in respect of the auditor's understanding of management's honesty and integrity, which is an important aspect of the exercise of professional skepticism.

We welcome the greater emphasis on considerations in respect of the involvement of specialists/ experts, including forensics experts, at various points in the standard. However, we are concerned that paragraph 22, in referring to appropriate competence and capabilities "including... appropriate specialized skills or knowledge", together with the related application material at paragraph A34, which states that "the nature, timing and extent of the involvement of individuals with specialized skills or knowledge, such as forensic and other experts ... may vary...", as drafted, appear to suggest that such experts should always be involved in an audit, although such involvement may vary. We do not consider this to be appropriate, as we believe that forensics specialists/experts should be involved in an audit in a specific and targeted manner to respond to particular risks identified, as for other specialists/experts, commensurate with the fact that an audit is a risk-based engagement. Instead, we recommend that ED-240 clarify that the engagement partner determines whether to use the work of a specialist/expert, in accordance with ISA 620.7, and guide the auditor as to the factors to consider in making this determination, such as the nature of the entity and the industry sector within which it operates, and the effects of the fraud risks factors identified etc.

Additionally, we recommend that paragraph A35, in discussing how such specialists/experts could be involved, refer also to their assistance in the evaluation of subjective judgements, assistance in identifying areas of management bias, as well as their expertise in assessing whether there is intent involved when a fraud is suspected (i.e., whether circumstances indicate that there is fraud versus error). Please refer also to our response to Question 1 regarding qualitatively material fraud and auditor considerations as to whether an act is intentional.

We recommend that the IAASB consider further enhancements to “future-proof” the standard in relation to the exercise of professional skepticism, by identifying additional factors that may impede the exercise of professional skepticism by the engagement team, such as remote or hybrid working;

We note that paragraph 21 requires the auditor to remain alert for information that is indicative of fraud. We recommend that the standard be more explicit either within the requirement itself, or in related application material, as to the auditor

remaining alert both to circumstances that may be indicative of fraud, and events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (i.e., fraud risk factors);

We note that paragraph 70(c) refers to the documentation of “significant judgements made”. We believe this should refer to “significant professional judgements made”, similar to the requirement at paragraph 70(f). We also recommend that these requirements be cross-referenced to ISA 200.A29, which requires the appropriate documentation of professional judgement.

We recommend that paragraph 23 also refer to taking account of the risk of management override, in respect of the engagement partner’s determination that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement.

Recommendations Relating to the ED-500 Project

We note the removal of the explanatory lead-in at paragraph 20 of ED-240 (paragraph 14 of the extant standard) that states “unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” to give greater prominence to the conditional requirement at paragraph 20, and to avoid duplication within the ISAs, as ISA 200.A23 contains this statement. We also note that paragraph A26 of ED-240 includes the statement that “the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified”. However, we note that the statement at ISA 200.A23 is application material to a more general requirement to exercise professional skepticism, at paragraph 15 of ISA 200, which is itself cross-referenced to the requirement at ISA 500.7-9 to consider the relevance and reliability of the information to be used as audit evidence. We further note that ED-500 includes more explicit focus on the attributes of relevance and reliability of information to be used as audit evidence, including consideration of the attribute of authenticity, when applicable. Whilst we recognise that the ED-500 project is currently paused, given the proposed enhancements to ED-500, as the foundational standard in respect of audit evidence, in this area, we recommend that, in finalizing ED-500, the IAASB further explore/clarify the interaction and connectivity of the above requirements and related application material with respect to the consideration of the authenticity of documents, across the different ISAs.

In connection with auditor awareness of potential biases, as discussed above, we also refer to the proposed revised ISA 500, which includes material in respect of auditor biases in relation to potential bias regarding overreliance on technology. We acknowledge that the ED-500R project is currently paused, however, we recommend that IAASB include a cross-reference to that material in connection with considerations as to

how a fraud may be perpetrated, as a conforming amendment to ED-240 on issuance of the revised ISA 500R.

Agree, with comments below

We are supportive of the IAASB's objective to reinforce the appropriate exercise of professional skepticism by the auditor in fraud-related audit procedures, throughout the audit, and we welcome the following proposed enhancements:

The inclusion of material in the introductory paragraphs, under the Key Concepts sub-heading, which describes the importance of exercising professional skepticism throughout the audit;

The new explicit requirement at paragraph 21 for the auditor to remain alert throughout the audit for information that is indicative of fraud or suspected fraud;

The new application material at paragraph A25 and paragraphs A30-31, focused on pressures on the engagement team that may impede the auditor's appropriate exercise of professional skepticism;

The emphasis at various points in the application material on robust inquiry and challenge of management and those charged with governance and, at A42, the need to "assign tasks or actions to appropriately skilled or suitably experienced members of the engagement team... when communicating matters related to fraud with management and those charged with governance"; and

Emphasis on the need to involve those with more specialist skills at appropriate points of the audit, e.g., forensics experts and IT experts, e.g., at paragraphs 22, A34 and A35.

Having said this, we also set out a number of recommendations below, to further enhance the auditor's exercise of professional skepticism regarding fraud in an audit of financial statements, and, in particular we recommend that ED-240 include a specific standback requirement in relation to fraud:

We also refer to our comments in respect of the inclusion of material to address group audit scenarios at certain points in the standard (e.g., in respect of the appropriate exercise of professional skepticism, as we describe in our response to Question 2, and in respect of the inclusion of a standback requirement, as we describe in our response to Question 7). We recommend that ED-240 be enhanced to better address these matters, which are an important part, in particular, of enabling the standard to be scaled up, for audits of larger and more complex entities

MNP

Most of ED-240 clearly sets out the auditor's responsibilities relating to fraud in a financial statement audit, however, we find that paragraph 21 may require additional skills beyond those of a certified public accountant and potentially cause confusion to the practitioner. It is unclear whether paragraph 21 is intended to also include immaterial fraud or fraud unrelated to financial statements (e.g., clients conducting impersonation for other fraudulent purposes). We suggest that the revised standard use more specific language (e.g., "...remain alert throughout the audit for information that is indicative of material financial statement fraud") in order to prevent this confusion.

Agree (with no further comments)

PriceWaterhouseCoopers

In paragraph A28, we believe the first step an auditor would take would be to make inquiries of relevant management as part of additional audit procedures to investigate concerns about the authenticity of records

or documents. There may be a valid reason that negates the auditor's concern. We suggest this is added as a logical first step.

Paragraphs A31 and A32 seem redundant and lacking relevance to the topic of professional skepticism in the context of fraud. Matters concerning compliance with ethical requirements are more appropriately addressed in ISA 220 (Revised) and appear disconnected in these paragraphs from the focus on professional skepticism in relation to fraud. Additionally, the guidance in paragraph A32 lacks a clear linkage to the exercise of professional skepticism, raising questions about its relevance and applicability here.

Agree, with comments below

Professional skepticism is a fundamental element of an audit. Although some of the new or enhanced requirements proposed by the Board, such as those outlined in paragraphs 19 to 21, may already represent best practice behavior in quality audits, we believe that the proposed changes, including the revisions in respect of risk identification and assessment, engagement team discussions, and consideration of the need for specialized skills, may help reinforce behavior underpinning the exercise of professional skepticism. However, we note that paragraphs A13-A14 have no fraud lens and are repetitive of other standards and should be deleted.

Notwithstanding the above, while we understand the Board's rationale for the decision to delete the statement from paragraph 14 of extant ISA 240 that "unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine", we are concerned this may lead to confusion regarding the responsibilities of the auditor. We note the Board's intent, emphasized in paragraph 25 of the EM, that the deletion is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained during the audit. To ensure that message is understood, we recommend that paragraph A26 in ED-240 includes a cross-reference to the base principle that will remain in ISA 200 (paragraph A24 of ISA 200).

Further, we believe it may be necessary for the Board to revisit the linkage between paragraphs 20 and A26 of ED-240 and proposed ISA 500 (Revised) insofar as it relates to the evaluation of the attributes of audit evidence, including authenticity, to ensure the Board's objectives are clear in terms of the expected work effort and related documentation.

RSM International

Agree, with comments below

We support the enhancements proposed to reinforce the importance of exercising professional skepticism when applying ED-240. However, we believe that the last phrase of the last sentence of paragraph 13 of ED-240, which states, 'Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level', is not necessary. We believe it may be confusing within the context of the standard, since the standard is about a specific aspect of the engagement (i.e., fraud) rather than the engagement as a whole as in ISA 220 (Revised), Quality Management for an Audit of Financial Statements. Alternatively, we recommend referencing to paragraph 7 of ISA 220 (Revised) and suggest paragraph 13 of ED-240 be revised as follows:

13. As stated in ISA 220, Professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional skepticism supports the quality of judgments made by the engagement team

and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level.

In addition, paragraph 23 of the EM states that the IAASB removed the last part of the requirement of paragraph 13 of extant ISA 240, which states, ‘...notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance’, because it believes that referring to the auditor's preconceptions, based on past experience, about the honesty and integrity of management and TCWG may serve to undermine the exercise of professional skepticism. We consider past experience to be an inherent factor that auditors should be conscious of in order to appropriately exercise professional skepticism, including past experience that would provide both confirming and disconfirming evidence related to the honesty and integrity of management and TCWG. By not including it, we believe auditors are more likely to have an unconscious bias and may not realize when they are taking into account their past experiences of interacting with management or excluding past experiences of interacting with management that may be relevant to the determination of risks of material misstatement.

We, therefore, suggest adding a similar phrase to an application paragraph, since it provides guidance on matters to consider when exercising professional skepticism. Accordingly, we propose the following addition to the first sentence of paragraph A24 of ED-240:

A24. Maintaining professional skepticism requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist, notwithstanding the auditor's past experience with the entity's management and those charged with governance.

SRA

Agree, with comments below

ED Paragraph 13 and paragraph 22. We propose that it be emphasized that the requirements according to the quality management system of the audit firm is leading for the auditor when making decisions about the appropriate competence and capabilities of the engagement team, including appropriate specialized skills or knowledge. In our view, it is not necessary for the IAASB to provide specific guidance on the use of forensic or other expertise.

ED Paragraph 20. We propose that the auditor should explicitly confirm that there are no ‘conditions identified during the audit’ that give the auditor reason to doubt the authenticity of a document or contract. This can help reduce the risk that the auditor uses too high a threshold for identifying circumstances during the audit that give rise to doubts about the authenticity of a document or contract.

The June 2023 version of the exposure draft included examples of ‘confirmation bias’ and ‘anchoring bias’ in par A25(b). Reference is now made (in par A26) to ISA 220. We recommend that the IAASB retain these useful examples in ISA 240.

6. Public Sector Organizations

Government Accountability Office – United States

We support the IAASB's effort to reinforce the exercise of professional skepticism in ED-240, but we believe that for the requirements and application materials the board should more clearly identify what practitioners should be doing to meet the requirements. We believe that it is unnecessary to repeat “the auditor shall maintain professional skepticism throughout the audit” in the requirements (paragraph 19) and key concepts section of ISA (paragraph 12). We suggest this statement should just be included in the requirements (paragraph 19) to be clearer to practitioners. Paragraphs 20 and 21 are listed as requirements, but it is not

clear how they fundamentally differ from paragraph 19. We recommend moving paragraphs 20 and 21 to application material.

Further, we do not believe that ED-240 paragraph 43 adds substantial value to the proposed standard. Paragraph 19 already requires the auditor to maintain professional skepticism throughout the audit, which would include designing and performing audit procedures in response to the assessed risks of material misstatement due to fraud in an unbiased manner. We do not believe that auditors will be able to clearly identify what is expected by paragraph 43. We recommend that this text be moved to application material for paragraph 19 as additional examples of how an auditor maintains professional skepticism in the audit.

The inclusion of examples in the boxes in the application material for professional skepticism do not clearly tie to the related application materials. We suggest better establishing a link to the examples by including a lead-in in the prior paragraph or a specific lead-in for the examples.

Further, some of the examples in paragraph A26 imply that the auditor has an affirmative responsibility to validate the authenticity of audit evidence. We believe that these examples would only be applicable if certain conditions come to the auditor's attention.

7. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants

Agree, with comments below

While ED 240 could reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements, in general, we disagree with the removal of the words “unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” under paragraph 20 of ED 240.

This removal may create confusion regarding the auditor's responsibility in relation to authenticity of documents and also potentially create the impression that the auditor is required to ensure that all documents and records are authentic, which would be excessive and not practicable. An audit engagement is different from an investigation engagement where the latter's starting point is to assume that evidence is not credible.

Asociacion Interamericana de Contabilidad

Agree, with comments below

We consider that it does reinforce this and we agree with not including requirements that are already contemplated in other auditing standards.

Yes, ED-240 reinforces the exercise of professional skepticism about fraud-related issues in a financial statement audit. This proposed IAASB document emphasizes the need for auditors to maintain a high level of professional skepticism throughout the audit process. ED- 240 seeks to ensure that auditors not only comply with standard procedures, but also actively question the information and explanations provided, which is key to detecting and responding appropriately to financial statement fraud.

The reinforcement focuses on the following central points, which developed sufficiently in the document: Expanded definition of professional skepticism, responses to fraud risk, continuous assessment and management independence.

Botswana Institute of Chartered Accountants

Agree, with comments below

he ED-240 does reinforce the exercise of professional skepticism especially after removing the last part of para. 13 of ISA 240 which referred to the auditor's preconceptions, based on past experience, about the honesty and integrity of management and TCWG as it may have served to undermine the exercise of professional skepticism. Inclusion of list of examples in para. A26 and A27 will also further assist in ensuring that auditors are well aware and alert of conditions that, if identified during the audit, may trigger the requirement in paragraph 20.

Center for Audit Quality

Authenticity of records and documents

We acknowledge that, in accordance with ISA 500, Audit Evidence, auditors are required to consider the relevance and reliability of information to be used as audit evidence. However, we are concerned that the proposed amendments in ED-240 related to the authenticity of records and documents could have unintended consequences related to the auditor's responsibilities, or the perceptions of those responsibilities, in this area. The proposed amendments could create confusion for auditors and could contribute to an expectation by financial statement users about what is required to be and/or has been performed by an auditor with respect to authenticating documents and records that does not align with the intended requirements of ED-240.

As described in paragraph 25 of the Explanatory Memorandum that accompanies ED-240, the IAASB is proposing to delete from ED-240.20 (extant ISA 240.14) the explanatory lead-in sentence, "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." The Explanatory Memorandum goes on to explain that the deletion is being proposed because the same sentence is already included in ISA 200.A24 and that the proposed deletion is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained during the audit. We are concerned that, as a result of the deletion of the lead-in sentence in ED-240.20, auditors may view ISA 240 and ISA 200 to be inconsistent with regards to the requirements of the auditor around the authenticity of records and documents, which could create confusion and inconsistency in performance by auditors.

Further, the language in extant ISA 240.A9, which states that "An audit performed in accordance with the ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication," has also been excluded from ED-240. We believe that this language provides important context and we are concerned that its elimination could unintentionally imply to auditors and/or financial statement users that the expectations or requirements of auditors with respect to these considerations (i.e., frequency with which authentication procedures are being performed, expertise in authentication) have changed.

Additionally, ED-240.A26 provides examples of conditions that may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor. We believe that in performing audit procedures, auditors (at least in some cases), may not become or be made aware of, or may not be able to discern, the existence of the example conditions listed in ED-240.A26. We are concerned that the extent and nature of the examples included in ED-240.A26 could imply an expansion of the role and responsibilities of the auditor related to validating the authenticity of records and documents in performing the audit.

We recommend that the Board consider retaining the aforementioned extant explanatory lead-in sentence in ED-240.20. To the extent the Board feels strongly that the language should not be repeated in ED-240, we encourage the Board to include a reference to ISA 200.24 within ED-240.20 in order to clarify that the auditor's responsibilities in this area are the same under the two standards. Additionally, we recommend that the Board consider retaining the language from extant ISA 240.A9, which could be included in ED-240.A26.

Agree (with no further comments)

Refer to our response to Question 1 regarding the IAASB's efforts to reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements in ED-240.

Chamber of Auditors of the Czech Republic

Agree, with comments below

We believe that ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements.

While we believe the inclusion of examples in the standards is helpful, it should be made clear that it is not an implicit requirement of the standard in every audit. For example, in the case of the list of example conditions in A26, there is a risk that the list will be considered by auditors as a checklist to be an implicit requirement that the auditor should address in each audit.

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

Agree, with comments below

We are generally supportive of these paragraphs when it comes to professional scepticism. However, we do have some concerns regarding the examples listed in paragraph A26. More specifically, our stakeholders are concerned that these could be used with the benefit of hindsight and have unintended consequences on auditor liability. These examples may make sense in ISA 200 and ISA 500, but they could have many implications when repeated in ED-240 in the context of fraud. Our stakeholders did note that they understand that exercise of professional skepticism is needed when it comes to the authenticity of information, however this appears to go beyond that into more of a forensic investigation exercise rather than a reasonable assurance engagement. This distinction is important as the objectives, cost and time dynamics of each exercise are very different, notwithstanding there is some overlap. Preserving absolute clarity around the objectives and nature of reasonable assurance engagements in the standards is critical to ensure the audit effort and time available are effectively put toward the objective of reaching an opinion on the financial statements as a whole, and to avoid weakening this focus.

We therefore suggest focusing on relevance and reliability of audit evidence as an alternative rather than authenticity.

Chartered Accountants Ireland

Professional skepticism application material A24-A32 is linked to paragraphs 12 and 13 but no equivalent cross-reference is included within these paragraphs.

The second example in A52 does not link to exchange of ideas; this is more a procedure performed during the audit. More clarity is required on how an auditor should identify fraud risk factors for any potential third-party fraud that is reasonable likely to occur.

Agree, with comments below

We agree that the ED reinforces the need to exercise professional skepticism in relation to matters relating to fraud. This will be very useful for the auditor in applying this standard- in particular the additional guidance around professional skepticism at A116 is helpful and the placement of paragraph 43 makes sense in relation to the flow of the work being performed by the auditor

We have a few comments in this area to enhance the reinforcement of professional skepticism:

In paragraph 20, we note the deletion of "Unless the auditor the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine") for the following reasons..." We note that the Explanatory Memorandum explains that the deletion is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained, the deletion may indirectly imply additional effort required to check authenticity of records and documents when it comes to procedures to address ROMMs due to Fraud given this wording is now only in the application material. If this was not intended to increase work effort this should not be deleted, rather the guidance included around consideration as to whether documents are authentic should be included in ISA 240

We have concerns that the examples in A26 could be viewed as a checklist. We suggest the application material could be enhanced if it added further detail on how an auditor should approach the evaluation of records or documents to determine whether there is an indication that the record or document may not be authentic

CPA Australia

Additionally, the examples in paragraph A29, which indicate fraud or suspected fraud, mostly apply to larger entities. We recommend including examples relevant to smaller entities to improve scalability and practical application as noted in our response to Question 2 above.

Agree, with comments below

Overall, we agree that ED-240 reinforces the exercise of professional skepticism.

However, we suggest that the IAASB consider moving the examples in paragraph A26 to the appendix of the standard or clarifying that these are examples and not requirements. This is to prevent hindsight bias, which could lead to challenges suggesting auditors should have been alert to documentation issues.

Additionally, it is important to note that "authenticity" in the fraud standard differs from its meaning in ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (ISA 200) or ISA 500 Audit Evidence (ISA 500), which could lead to unintended interpretation differences that compound the problems where this list of conditions in A26 is not considered for documents in other engagements.

We also find that the examples in paragraph A29 mainly apply to larger, more complex entities (such as references to audit committee, internal audit function and whistleblower program), lacking scalability for smaller entities. We recommend including examples relevant to smaller entities to better address scalability.

The explanatory lead-in sentence from the extant ISA 240, "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine," has been removed from ED-240 paragraph 20 but retained in paragraph A24 of ISA 200. We suggest revising paragraph A24 of ISA 200 to align with the intent of removing this lead-in sentence.

Finally, ED-240 retains the term "authentic" from the extant ISA 240. We recommend replacing "authentic" with "reliable" to better align with ISA 500.

CPA Ontario Small and Medium Practices Advisory Committee

Agree, with comments below

ED-240 strongly reinforces the exercise of professional skepticism concerning matters related to fraud during an audit of financial statements. This emphasis is evident in several key changes and enhancements proposed in the standard.

ED-240 underlines the necessity for auditors to maintain an elevated level of professional skepticism throughout the audit process. It explicitly addresses the challenges auditors face when assessing fraud risks and the frequent need to question evidence or reassess the reliability of information received from the management.

The standard provides detailed guidance on how auditors should apply professional skepticism specifically in relation to fraud, including (i) auditors are urged to remain alert to conditions that might indicate possible misstatements due to fraud, which includes considering the sufficiency and appropriateness of audit evidence, especially when findings contradict representations from management, and (ii) the application of professional skepticism in assessing the risks of management override of controls—a significant area of concern for fraud in financial statements.

These sections in ED-240 provide clear directives that enhance the requirements for auditors to actively engage in critical assessment and reconsideration of all available evidence, ensuring that skepticism is applied consistently and thoroughly, particularly in areas susceptible to fraud. The draft standard's focus on skepticism is aimed at improving the detection and consideration of fraud in audits, fostering a more diligent and questioning audit approach to enhance the reliability of financial statements.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer 2. Yes, however we propose the following changes in the wording: We would reverse the order of paragraphs 20 and 21.

20. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A26–A28)

21. The auditor shall remain alert throughout the audit for information that is indicative of fraud or suspected fraud. (Ref: Para. A29–A32)

Fundament: It seems to us to be a more correct methodological order. Paragraph 21 refers to a general attitudinal issue, while paragraph 20 refers to a specific circumstance.

Institute of Certified Public Accountants of Rwanda

Agree, with comments below

The exercise of professional skepticism is reinforced in ED-240 including the need to remain alert throughout the audit for any information that may be indicative of fraud or suspected fraud such as time pressures by management to complete the audit engagement.

Institute of Certified Public Accountants of Uganda

Agree, with comments below

We believe that the ED-240 reinforces the exercise of professional skepticism about matters relating to fraud in an audit of financial statements. However, we recommend that paragraph 21 be expanded to include events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Institute of Chartered Accountants in England and Wales

Agree, with comments below

Professional skepticism by its very nature is subjective. Its application requires careful consideration when it comes to fraud which can be complex.

As ISA 200 Para. 13(l) rightly points out, professional skepticism is an attitude and therefore may not be something that can be cemented by auditing standards. Auditing standards must at least be supplemented by enhanced training, well-articulated methodologies, and informal encouragement of the right behaviors to foster a culture and mindset of independence and robust challenge of management.

IAASB notes in its August 2017 Toward Enhanced Professional Skepticism report, jointly issued with the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB), that ‘standard setting alone will not be enough’ and that ‘education and continuing, effective training remain vital’ to the exercise of professional skepticism

Nevertheless, IAASB is right to emphasize the importance of maintaining this attitude towards the end of the audit (in ED-240 Para. A30). This is when pressures, such as the audited entity insisting on a sign-off date, may erode the auditor’s ability or willingness to challenge and question. The examples provided of such pressures, along with other impediments to the exercise of professional skepticism, and of mitigating actions (ED-240 Para. A25) are also welcome.

In the spirit of encouraging the auditor to approach each audit with a fresh pair of eyes, we do not object to the removal of the reference to the auditor not relying on preconceptions based on past experience of the honesty and integrity of management and TCWG in Para. 12 of extant ISA 240.

We do not agree, however, with the removal of the reference in extant ISA 240 Para. 13 to the auditor’s ability to accept records as genuine and unmodified unless they suspect the contrary. Despite its preservation in ISA 200 Para. A21 and IAASB’s insistence that this was ‘not intended to increase the work effort’ (EM, Section 1-D, Para. 25), it is unclear why the reference has been removed from the requirements themselves. It has the potential to sow confusion around the efforts an auditor needs to expend to validate the legitimacy of records and documents. An expectation may be inadvertently created that audit teams treat every record or document as potentially fraudulent. We believe that either the reference should be re-instated as a requirement in ED-240 (since it is an important factor in the development of the auditor’s response to fraud) or a clear cross reference to the relevant section of ISA 200 should be made.

We note that several of the application material paragraphs dealing specifically with professional skepticism are simply restatements of the requirements of other standards with no substantively new content added. IAASB should try to build on the relevant foundational requirements with a ‘fraud lens’, rather than simply repeat material. ED-240 Para. A13, for example, recites concepts from ISQM 1 and Para. A14 appears directly lifted from ISQM 1 (Para. A31). The same is true of ED-240 Para. A25 which both repeats ISA 220 Para. A33 and directs the auditor to ISA 220 Paras. A34 – A36. The scenario-based examples of impediments to professional skepticism presented in this paragraph are the same as those presented in ISA 220. As a minimum, IAASB should consider simply referring to the other standards.

Institute of Chartered Accountants of Scotland

Agree, with comments below

Yes, we believe that in general ED-240 does reinforce the exercise of professional skepticism to the extent that it is able to, in relation to matters relating to fraud in an audit of financial statements.

We would, however, highlight two specific concerns; the first of which relates to the removal of the content in paragraph 14 of the extant version of ISA 240 i.e.

“14. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A10)”

Whilst we recognize that there is similar content in ISA 200, we believe that at the very least a cross-reference to paragraph 24 of ISA 240 should be made.

Secondly, we would encourage the IAASB to reinstate paragraph 13 of ISA 240 as in our view this serves as an important reminder for auditors to remain alert notwithstanding their prior experience of an entity's management and those charged with governance.

Institute of Singapore Chartered Accountants

Agree, with comments below

Authenticity of records and documents

While ED-240 as a whole reinforces the exercise of professional skepticism, we disagree with the removal of certain statements originally included in extant ISA 240.

We suggest that IAASB retain the wording “notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance” under paragraph 19 or in the related application material under paragraphs A24–A25. Similarly, we suggest retaining the wording “setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity” under paragraph 29. We believe that these statements are helpful in reminding the auditor to set aside any potential biases resulting from past experience with management and those charged with governance.

We also suggest retaining the lead-in statement “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” under paragraph 20. Such removal causes confusion as to the auditor's responsibility in relation to authenticity of documents and may create the impression that the auditor is required to ensure that all documents and records are authentic, which would be excessive and not practicable. We believe that it is important to retain the lead-in sentence to emphasise that further procedures to check authenticity are only required for situations where there are indicators that records and documents are not genuine.

Korean Institute of Certified Public Accountants

Agree, with comments below

The KICPA is of view that the ED generally strengthens the exercise of professional skepticism regarding the matters relating to fraud in an audit of financial statements.

However, the IAASB believed that ‘referring to the auditor’s preconceptions, based on past experience’ in Paragraph 13 of the extant ISA 240 may undermine maintaining professional skepticism about the honesty and integrity of management and TCWG, resulting in removing the relevant part from the ED. On the contrary, it would be reasonable to clearly state that the auditor should maintain professional skepticism in the course of an audit engagement ‘regardless of the auditor’s past experience about the honesty and integrity of management and TCWG’, in order to strengthen the professional skepticism. Therefore, we propose that the relevant part should be included back in the ED.

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Agree, with comments below

While some of the new requirements proposed by the IAASB are already best practice behaviors in high-quality audits such as remaining alert throughout the audit for information that is indicative of fraud or suspected fraud, the proposed changes are likely to help focus engagement team attention on relevant fraud-related considerations. Taken in conjunction with other changes described on risk identification and assessment, this may help reinforce behaviors underpinning the exercise of professional skepticism throughout the audit in relation to fraud.

However, we disagree with the removal of the sentence “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” in paragraph 20 of ED-240 (revised paragraph 14 of ISA 240). In auditing, an auditor has to apply professional skepticism and the entry point should start with the basis that evidence is genuine unless the auditor has reason to believe the contrary. An audit is different from an investigation engagement where the latter’s starting point is to assume evidence as not credible. While we acknowledge that the same clarification has been made in paragraph A24 of ISA 200, the removal of the aforementioned words creates an impression that the sentence contradicts with the further explanatory paragraph A26 of ED-240. Please see the compounded requirements of paragraph 20 and A26 of ED-240 as follows:

Paragraph 20 of ED-240: “If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.”

Paragraph A26 of ED-240: “The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. However, audit procedures performed in accordance with this or other ISAs, or information from other sources, may bring to the auditor’s attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. Paragraph 20 applies if the auditor identifies such conditions during the course of the audit.”

As per the above, paragraph A26 states that an auditor is not required to perform specific audit procedures to identify conditions that may question the authenticity of the documents. However, the paragraph also states that paragraph 20 applies when the conditions listed are identified. To prevent any unintended consequences of stating specific examples of conditions that may cause an auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor, it is imperative that there be clarity in the standard that the examples of conditions are to be considered only if identified during the ordinary course of performing the audit procedures based on the assessed risks of material misstatements and not as part of procedures designed specifically to identify those examples. In addition, there needs to be practical guidance on the expected level of alertness

required by the auditor of these conditions when carrying out audit procedures during the ordinary course of an audit.

It may be helpful for the IAASB to revisit the linkage between paragraphs 20 and A26 of ED-240 and the proposed ISA 500 (Revised) in relation to the evaluation of the attributes of audit evidence, including authenticity for clarity on the expected effort and related documentation.

Malta Institute of Accountants

Agree, with comments below

The concept of professional skepticism when undertaking an audit, especially when assessing any possibilities/risks of fraud is already ingrained within the standards and should already be an integral aspect in complying with the requirements of the standards, in particular ISA 240.

However, the removal of the sentence "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine" may create confusion in respect of the auditor's responsibilities relating to the authenticity of the documents obtained during the audit.

Pennsylvania Institute of Certified Public Accountants

Agree, with comments below

The committee supports the ability of auditors to be able to rely on the authenticity of client documents unless something comes to their attention. The committee supports retaining the following sentence: "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." Furthermore, the change of the terminology to "if conditions identified" seems to suggest an affirmative requirement to "identify." We request that the Board revise the terminology in the multiple instances in which the language reads "identify" to read "if conditions come to the auditor's attention" (e.g., paragraph 20, A26, A28).

South African Institute of Chartered Accountants

Agree, with comments below

There is a need to add application material to assist auditors in documenting professional skepticism. There are currently insufficient examples in the ED-240 of what the auditor can consider when applying professional skepticism.

Consideration should be given to including principles-based guidance/framework in the application material to assist auditors with triggers regarding the proper application of professional skepticism.

ED-240 is unclear on when the use of a fraud expert/specialist would be appropriate and how that links to exercising professional skepticism. Adding further guidance in the application material of practical scenarios where a fraud specialist would be required at different stages of the audit process to assist the auditor with triggers to consider when conducting the audit would enhance ED-240.

We recommended that guidance should be included in ED-240 on how the auditor can utilize information emanating from sources such as media articles, commission of enquiry reports and whistleblowing allegations reports as part of the fraud risk identification and assessment process and how the auditor can determine that these reports are reliable and reputable as part of exercising professional skepticism. In this regard, the IAASB should consider updating Par. A29.

The standard must be clear on the extent of evidence required to support risk assessment versus audit evidence on the financial statements.

8. Academics

University of KwaZulu-Natal

Agree, with comments below

Paragraph 45 should highlight the role of Professional skepticism in the auditor's response to fraud risk

9. Individuals and Others

Altaf Noor Ali Chartered Accountants

R2: Yes. The discussion remains incomplete without a proper reference to 'The Code'.

2.1 We agree that the attitude of professional skepticism must be maintained throughout the audit. We agree to the inclusion of professional skepticism as key concept in this ISA.

2.2 We highlight the mention of the attitude of professional skepticism without its explicit cross-reference to the Code of Conduct.

John Keyser

Agree, with comments below

In paragraph 26, the Board states that the deletion of the lead-in sentence from paragraph 14 of the extant standard "is not intended to increase the work effort as it pertains to considering the authenticity of records and documents obtained during the audit." I do not see any benefit in deleting the lead-in sentence. Auditors are not trained in document authentication. The lead-in sentence may help to reduce the expectation gap and should be retained. It is better to include this in the requirements section as opposed to the application section.

Q02 Neither agree nor disagree

1. Monitoring Group

International Organization of Securities Commission

With regards to the auditor's responsibilities relating to fraud, including exercising professional skepticism, we believe it is critical for the Board to consider fraud schemes that are common in today's business environment. Based on the Association of Certified Fraud Examiners' Occupational Fraud 2024: A report to the nations (page 11), and based on our experience with enforcement cases in our own jurisdictions, financial reporting fraud is most commonly perpetrated in the following areas: revenue recognition; estimates, including improper recognition or measurement; and improper or omitted disclosures, including related party disclosures. While many of the aforementioned areas are discussed in examples included in the application material and appendices in ED-240, we believe the Board should further reinforce the auditor's exercise of professional skepticism as it relates to these specific areas within the requirements. We believe such refinements are critical for the auditor to respond to circumstances that may exist which could enhance the likelihood that an auditor will detect fraud.

While we acknowledge and support the IAASB's proposed changes made to ED-240 to reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements, we believe the Board can further enhance the requirements and application guidance to reinforce the importance of professional skepticism in the following areas:

Audit evidence

ED-240 paragraph 20 includes a requirement that states: “If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.” However, we believe the requirement should require the auditor to maintain professional skepticism throughout the audit when evaluating the relevance and reliability of information, including contradictory information, intended to be used as audit evidence more broadly and provide a link to ISA 500, Audit Evidence, as the proposed paragraph only requires professional skepticism on one element of audit evidence i.e., authenticity.

With regards to authenticity specifically, we continue to support the Board’s proposed ISA 500 (Revised), Audit Evidence, that lists authenticity as an attribute to consider when evaluating the reliability of information intended to be used as audit evidence. However, we continue to believe ISA 200, paragraph A21 should be strengthened and more closely align to the auditor’s requirement to evaluate the reliability of information intended to be used as audit evidence i.e. the auditor should consider the authenticity in their evaluation of reliability of the information provided rather than “accepting the information as genuine unless the auditor has reason to believe the contrary”. We believe this change is especially important to promote consistent behavior of auditors to maintain professional skepticism as it relates to audit evidence.

Responses to the assessed risks of material misstatements due to fraud

In order to enhance the requirements and application material in ED-240 to reinforce a more robust exercise of professional skepticism when performing procedures to respond to the assessed risks of material misstatements due to fraud in specific areas where fraud is commonly perpetrated as discussed above, we believe the following should be included as sub-sections within the “Responses to the assessed risks of material misstatements due to fraud” section, together with linkages to the relevant requirements in other ISAs, where applicable:

Audit procedures responsive to the assessed risk of fraud in revenue recognition

Related party transactions

Adequacy of financial statement disclosures

Confirmations

Contradictory evidence

Consistent with our comment letter on the IAASB’s Proposed Strategy and Work Plan for 2024-2027, as it relates to ISA 505, External Confirmations, we believe the Board should include guidance for auditors on how to assess the reliability of external confirmations received, with regard to the possibility of fraud. There should also be more complete requirements on how auditors should respond where there is no response to a confirmation request.

In order to emphasize the auditors’ professional skepticism requirements, we believe it is important to emphasize that auditors should not have a “checklist mentality” to risk identification and assessment procedures. Similar to ISA 500, paragraph A6, we also believe it is important to remind auditors in ED 240 that inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement.

4. Jurisdictional and National Auditing Standard Setters

Institut der Wirtschaftsprüfer in Deutschland

The treatment of professional skepticism in relation to whether auditors may regard documents to be authentic unless there are indications to the contrary. There needs to be a clearer distinction between the requirement in the draft of ISA 500 to evaluate the reliability of information intended to be used as audit evidence and hence the potential consideration of the authenticity of a document (when relevant), and the ability of auditors to regard documents as authentic otherwise. (Response to Question 2)

Neither agree/disagree, but see comments below

While we agree with the need to reinforce the exercise of professional skepticism about matters relating to fraud in the audit of financial statements and with some of the proposals made, we do not agree with some of the other proposals and address those with which we disagree in our response to this question.

We do not agree with the proposal to leave out the sentence from paragraph 14 of extant ISA 240, “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” from the beginning of paragraph 20. This sentence was viewed as essential explanatory material that represented a “negative requirement” – that is, clarification of what auditors need not do, which is not accept records and documents as genuine even when the auditor has no reason to believe that they are not genuine. The remaining requirement coupled with the application material infers that the auditor needs to check a series of conditions each time a document is used. Although the first sentence of paragraph A26 states that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified (a stipulation that could be placed within the requirements as a “negative requirement” rather than the application material), we consider that it would, in practice, be difficult for an auditor to defend an approach that involved not considering and documenting the example conditions listed. We believe this will lead to considerable, and unintended, additional work effort and cost for cases in which there are innocuous reasons for the conditions noted after having followed-up on the conditions and no other issues leading to doubt about authenticity of a document have arisen. Rather the lead-in sentence to the examples in the box after paragraph A26 should clarify that when, after following up on the conditions identified, the evidence provided by management for the existence of these conditions is unsatisfactory (such as when other issues arise that cause doubt about the authenticity of a document, including poor explanations by management), these conditions may then cause the auditor to perform additional procedures to evaluate whether a record or document is authentic.

For the same reason, the sentence that had been at the end of paragraph A27 in the June 2023 draft of the standard submitted to the IAASB (“Irrespective of the auditor’s consideration of the authenticity of the information intended to be used as audit evidence, the auditor is neither trained as, nor expected to be, an expert in the authentication of records or documents.”) is important and should therefore be reinstated. Without the inclusion of the deleted sentence, paragraph A27 reinforces the impression that the auditor performs a forensic approach in considering the reliability of the documents they use prior to other follow up. Note that this does not imply that forensic auditors should not be drawn upon when needed, but that a general requirement, or the impression thereof, is both excessive and further exacerbates the “expectation gap”.

While the wording in the deleted paragraph A24 in the draft from June 2023 probably needed revision, we are not in favor of the paragraph having been deleted entirely because auditors generally consider the integrity of management and those charged with governance as part of their decision of whether to accept or continue an audit engagement, which implies that they will also draw upon past experience in making that consideration. Furthermore, auditors are required to use the information obtained during the acceptance and continuance process during the audit (see ISA 315 (Revised 2019) paragraph 15(a) in connection with

ISA 220 (Revised) paragraph 23 together with A50 and ISQM 1 paragraph 30(a)(i)). For this reason, that paragraph should not have been deleted, but replaced with better wording. We would suggest wording along the following lines: “Although the auditor considers past experience of the perceived honesty and integrity of the entity’s management and those charged with governance as part of acceptance and continuance procedures and as such is also required to also use this information in the audit, the auditor’s professional skepticism is particularly important in considering the risks of material misstatement due to fraud because there may have been changes in circumstances.” Reference, in the application material to this proposed sentence, to the requirement in ISA 315 (Revised 2019) paragraph 16 and the application material in A39 to A41 could also be helpful here.

The wording in the first two sentences of paragraph A24 does not align with that used in ISA 200 and ISA 500, respectively, and thereby misconstrues how these standards deal with professional skepticism. Regarding the first sentence, under its definition in ISA 200, professional skepticism involves a questioning mind – not an ongoing questioning. Auditors do not question matters on an ongoing basis, but rather when information is considered for use as audit evidence and when considering inconsistent evidence. Hence, in line with ISA 200, the sentence should therefore be revised to read: “Exercising professional skepticism involves a questioning mind and being alert to conditions, such as information or audit evidence, suggesting that material misstatement due to fraud may exist.” Regarding the second sentence, it is the evaluation of the reliability of information intended to be used as audit evidence that requires the exercise of professional skepticism – professional skepticism does not cause the need to evaluate the reliability of information, because this evaluation is required in ISA 500 (and referenced in paragraph A27). The sentence would need to be changed to read: “Professional skepticism is exercised when evaluating the reliability of the information to be used as audit evidence...”. Furthermore, we do not understand the reference at the end of this sentence to “and identified controls in the controls activity component”. The requirement in ISA 315 (Revised 2019) does not require an evaluation of the reliability of controls in the controls activity component: ISA 315 (Revised 2019) requires an evaluation of the design effectiveness and implementation of such controls in certain circumstances. Likewise, ISA 330 does not require an evaluation of the reliability of controls in the controls activity component: ISA 330 requires an evaluation of the operating effectiveness of controls in the controls activity component when relying on those controls. At most, professional skepticism is applied when evaluating

the information to be used as audit evidence about the design effectiveness, implementation or operating effectiveness of those controls, but that is already covered by the first part of the sentence in the draft. We therefore suggest that “an evaluation of the reliability of controls in the controls activity component” be deleted.

We agree with the clear majority of the matters addressed in the draft. However, we do have a number of important concerns regarding the draft that we address in this response template. The main themes underlying our concerns relate to:

7. Member Bodies and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

Neither agree/disagree, but see comments below

While we welcome added emphasis on professional skepticism, we recognize that this will have limited real impact. We agree with some of the changes, such as the removal from paragraph 19 of reference to the auditor’s prior experience of the honesty and integrity of the entity’s management and those charged with governance (TCWG), as this will avoid complacency and reinforce objectivity. However, we have some

specific concerns. We note that in paragraph 20, the requirement no longer states unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. The requirement has been softened to application guidance. We fear this might result in auditors expending undue effort to validate the legitimacy of documents where there are no identified indications of issues.

Institute of Chartered Accountants of Sri Lanka

Neither agree/disagree, but see comments below

In jurisdictions where implementation of an internal control framework is not specifically made mandatory, nor there are requirements relating to risk and control self-assessments, the entities may not have internal control systems developed as expected in this standard. This may affect the expected responsibility level of an auditor in relation to fraud.

Requisite application guidance on how to deal in such circumstances will be helpful.

Q02 Disagree

7. Member Bodies and Other Professional Organizations

Accountancy Europe

Disagree, with comments below

We agree that the auditor needs to maintain professional skepticism throughout the audit and remain alert to conditions that may indicate possible fraud. This is a behavioral matter that can be achieved by proper training and promoting such a culture within a firm rather than reminding the importance of professional skepticism in topical ISAs. Such overarching principles should only be included in ISA 200 which explains overall concepts and objectives in a financial statements audit.

In addition, there is a risk that the list of exemplary conditions (e.g., paragraph A26), that may trigger the auditor to further investigate a matter, may be considered as a checklist and thus as an implicit requirement in every audit and for every record or document seen by the auditor. Although the inclusion of examples is often helpful, it should be clarified that the implications of the existence of such conditions will depend on the engagement circumstances and auditor's professional judgement.

Fraud Advisory Panel

Disagree, with comments below

In respect of ED paragraph 29, the further explanations under sub-paragraphs (a) and (b) are helpful. However, we consider that the explanations should be expanded by application note to include examples of fraud schemes which auditors should consider.

We note from EM paragraph 23 that the ED removes the requirement to have discussions setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.

We further note ED paragraph 29 (a) (ii) (b) still requires an exchange of ideas on "How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting" and the ED paragraph A51 suggests that the adoption of a "what if" scenario may be a useful approach to facilitate the exchange of ideas.

In our view this initial discussion is crucial to help establish an appropriate mindset in the broader audit team that "fraud-related" risks are very different from "error-related" risks, not least because of intentional

concealment and obfuscation during inquiries. It is also essential for ensuring the team, including its more junior members, are sensitive to the challenges of auditing fraud-risks that may involve senior management and/or those charged with governance.

We suggest that this section should instruct the auditor, purely for planning purposes, to specifically reflect on a situation in which management and/or those charged with governance were motivated to commit fraud, and then to reflect on what they might then do and how they would conceal that fraud.

We consider that the removal of the requirement to have discussions setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity may be perceived to soften the language and undermine the thought exercise proposed. As noted above, the types of fraud that are most likely to be undetected and material to an entities financial statements are the frauds perpetrated by dishonest management and those charged with governance, acting without integrity.

While we note that ED Paragraph 22, we consider that reference to consulting subject matter (fraud) experts or forensic accountants in the body of the standard (rather than in the application notes) is necessary at ED paragraph 29.

International Federation of Accountants

Disagree, with comments below

Professional Skepticism is a mindset, and as such there will always be a limit to which requirements in audit standards can improve exercise of this mindset. In this manner, attempts to strengthen proposals in relation to professional skepticism in ED-240 may be unlikely to have a substantive impact in improving exercise of this. We agree with some of the changes, for instance the removal of the reference to the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance in paragraph 19. Preconceptions based upon past actions by management or TCWG could become a barrier to exercise of professional skepticism, and we support the approach where this should be considered from a fresh perspective in every engagement. However, we raise some specific challenges to the proposals.

We note that within Paragraph 20, the requirement no longer states unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. We note that proposed A26 of ISA 240 and A24 of ISA 200 within ED-240 retain references to similar effect, but it is not clear why the reference has been removed from the requirements. This is directly relevant in developing an approach in response to fraud on an engagement, so appropriately belongs in the requirements. Relying only on a presence in application guidance could lead to auditors expending undue effort to validate the legitimacy of documents where there are no identified indications of issues. The link created to ISA 500 in ED-240 could also be similarly problematic as it would create questions around what actually needs to be done to have audit evidence that can be relied upon.

While A26 states that procedures do not need to be performed to identify conditions that documents are not authentic, we note a list of conditions is presented. This could create an implication that review of documents for these factors is necessary, creating an obligation to have a thought process around all of these example factors when reviewing documents. This may effectively result in the creation of de-facto requirements, where with the benefit of hindsight, challenges could be raised suggesting the auditor should have been alert to issues with documentation. It should also be noted that authenticity in the fraud standard has a different meaning than in ISA 200 or 500, and unintended interpretation differences could compound problems where this list of conditions is not considered for documents on engagements. Although this is in

application guidance, the list could prove problematic for practitioners, so removal or reduction should be considered to address the risks this poses.

8. Academics

Accounting and Finance Association of Australia and New Zealand

Disagree, with comments below

We believe that revisions to extant ISA 240 reflected in ED-240 reinforce a lower level of professional skepticism than what is presently the case. Moreover, we believe that the unique characteristics of fraud mean that the auditor's work effort in exercising professional skepticism needs to be greater than that which is currently required in the extant standard (and reinforced in ED-240).

We believe that the deletion of reference in paragraph 19 of ED-240 to putting aside the auditor's past experience of the honesty and integrity of the entity's management diminishes (rather than reinforces) the exercise of professional skepticism about matters relating to fraud. More importantly, we believe that paragraph 21 of ED-240 encourages the inappropriate (insufficient) application of professional skepticism and we encourage the IAASB to consider introducing a stronger requirement that reinforces the importance of a more robust application of professional skepticism relating to fraud in an audit of financial statements. Doing so will make the realization of other improvements in ED-240 more likely.

Research (e.g., Harding and Trotman 2017; Brasel et al. 2019; Verway and Asare. 2022; Hardies et al. 2024) highlights the importance of professional skepticism on positive auditor behaviors relating to fraud in an audit of financial statements. Moreover, research further suggests that a more questioning approach, where auditors presume a degree of dishonesty and/or bias by management, often referred to as presumptive doubt (see for example Nelson 2009 and Glover and Prawitt 2014), likely results in more effective audit judgments relating to fraud (Quadackers et al. 2014; Chui et al. 2022). Indeed, paragraphs 41 and 42 in ED-240 (and corresponding requirements in extant ISA 240) require a presumption of dishonesty and/or bias in relation to revenue recognition and management override of controls. We further note that requirements in the proposed standard to report fraud KAMs may lead auditors to infer a 'moral license' to exercise lower levels of professional skepticism (Asbahr and Ruhnke 2019), making the reinforcement of an appropriate level of professional skepticism even more critical.

We believe that to effectively apply the requirements in ED-240, and to meet society's expectations as they relate to auditors' responsibility relating to fraud, auditors must apply a higher work effort when applying professional skepticism than is currently required.

We note the IAASB's discussions in 2016 and 2017 around the concept of professional skepticism and the decision to accept an invariant level of professional skepticism and neutral (rather than, for example, a presumptive doubt) mindset, but that the auditor's actions in effectively applying professional skepticism vary with the circumstances. We believe that the auditor's consideration of fraud in a financial statement audit is one area where the auditor's actions must involve greater work effort.

Although paragraph 21 in ED-240 reflects the wording embedded in the definition of professional skepticism, we note that the verb 'remain alert' is at the lower end of the work effort spectrum (see IAASB Drafting Principles and Guidelines). Different work effort verbs impact auditor judgment and decision making (Stepankova et al. 2022) and we believe that 'consider' more effectively reflects the necessary auditor work effort relating to the application of professional skepticism concerning the identification of material misstatements due to fraud. We encourage the IAASB to replace 'remain alert' with 'consider' in paragraph 21 (and make consequential changes to the wording of the paragraph). We further encourage the IAASB to

expand on the application material, and in particular paragraph A30, to reinforce and illustrate the increased work effort necessary when applying professional skepticism as it relates to fraud in an audit of financial statements. We do not believe that such a change would conflict with the current definition of professional skepticism, nor would it be contradictory to the IAASB's 2016 and 2017 deliberations and conclusions on professional skepticism.

We further note that ISA 220 (paragraphs A33-A36) speaks to the impediments in exercising professional skepticism and the IAASB might consider cross references to that information in terms of addressing these impediments in an environment requiring more effort in fulfilling requirements as to the exercise of professional skepticism.

Finally, we believe that the deletion of material in extant paragraph 13 (paragraph 19 in ED-240) diminishes rather than enhances the exercise of professional skepticism. Auditors rarely encounter fraud (Loebbecke et al. 1989; Asare and Wright 2004; Hoffman and Zimbelman 2009; Gold et al. 2010), and research suggests that ongoing exposure to clients for which no material fraud is identified lowers the auditor's beliefs as to the base rate frequency of fraudulent activity and makes the identification of fraud when it does arise less likely (e.g., Zimbelman 1997; Rose et al. 2003; Rose 2007; Cassel et al. 2022). Reminding auditors to put aside past experiences of the honesty and integrity of the entity's management likely reduces this base rate bias. We encourage the IAASB to reinstate this material prior to issuing the revised standard. In addition, we encourage the IAASB to reflect on the possibility, in application material, to elaborate on the risk that ongoing exposure to engagements for which there is no material misstatement due to fraud may inappropriately desensitize the auditor to the likelihood of fraud, meaning that the maintenance of professional skepticism is of critical importance. This could be incorporated into paragraph A24 of ED-240 when the importance of professional skepticism is considered.

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9. Individuals and Others

Colin Semotiuk

Disagree, with comments below

As noted to question 2, ED-240 moves a financial statement auditor's responsibilities from a financial statement audit opinion to detecting and preventing fraud. ED paragraphs 12, 19, A25, A27 and A31 are in relation to other ISAs and such guidance should be included in the original ISA versus moving the focus of the auditor from the financial statement audit to detecting and preventing fraud. If the originating standard for professional skepticism is insufficient, it should be analyzed and reviewed with an exposure draft to update the identified inadequacies.

Dr. Rasha Kassem

Disagree, with comments below

The existing guidance on the application of professional skepticism by auditors is lacking and inadequate. It is necessary to provide explicit and comprehensive instructions that outline how auditors should exercise critical thinking in their work. Concrete examples can be included to demonstrate how this can be achieved effectively. One potential solution to enhance auditors' skills in this area is to establish a requirement for attending fraud and forensic accounting training. However, this requirement mustn't be left solely at the discretion of audit firms. Rather, it should be recognized as an essential competency that must be uniformly adopted to enhance auditors' critical thinking skills and professional skepticism. By implementing such measures, auditors can be better equipped to fulfill their responsibilities and ensure a higher standard of audit quality. Sir Brydon made this recommendation in 2019 and I highly recommend taking it on board while amending this standard.

More guidance on detecting financial fraud should be provided to auditors as there is no guarantee audit firms will provide this guidance and auditors are legally liable for the guidance in this standard. In one of my

recent studies, I developed guidance on detecting financial reporting fraud in audits based on the views and experience of experienced external auditors. This guidance could be incorporated into the audit standard to enhance auditors' skills in fraud risk assessment. The link to my publication is: <https://tinyurl.com/3ckuc2be> I am happy to provide a free copy of the paper if needed. I also include a link to another paper on how to detect asset misappropriation in external audits, which might be helpful: Inderscience Publishers - linking academia, business and industry through research

Q02 No response

5. Accounting Firms

Baker Tilly International

No response

6. Public Sector Organizations

Office of the Auditor General of Ontario

We have no concerns with these proposed changes.