

Fraud – Question 9

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, ISA 540 (Revised) and ISA 701) to promote the application of the ISAs in an integrated manner?

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

Agree (with no further comments)

4. Jurisdictional and National Auditing Standard Setters**Australian Auditing and Assurance Standards Board**

Agree (with no further comments)

Hong Kong Institute of Certified Public Accountants

Agree (with no further comments)

Instituto Mexicano de Contadores Publicos

Agree (with no further comments)

Japanese Institute of Certified Public Accountants

Agree (with no further comments)

Wirtschaftsprüferkammer

Yes, ED-240 has appropriate linkages to other ISAs to promote the application of the ISAs in an integrated manner.

5. Accounting Firms**Crowe Global**

ED-240 does have appropriate linkages to other standards.

Moore Global Network

Agree (with no further comments)

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

The linkages to other ISAs are appropriate.

Provincial Auditor Saskatchewan

Yes, the linkages to other ISAs are appropriate.

7. Member Bodies and Other Professional Organizations

ASEAN Federation of Accountants

Agree (with no further comments)

Botswana Institute of Chartered Accountants

Agree (with no further comments)

California Society of Certified Public Accountants

Agree (with no further comments)

Chartered Accountants Ireland

Agree (with no further comments)

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer 9: We consider that ED-240 has appropriate links to other ISAs as cited in the question, (e.g. ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, 30 ISA 540 (Revised) and ISA 701) to promote the application of ISAs in an integrated manner

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)

Institute of Chartered Accountants of Sri Lanka

Agree (with no further comments)

Institute of Singapore Chartered Accountants

Agree (with no further comments)

Instituto Nacional de Contadores Públicos de Colombia

Agree (with no further comments)

Korean Institute of Certified Public Accountants

Agree (with no further comments)

Malaysian Institute of Accountants - Auditing and Assurance Standards Board

Agree (with no further comments)

Malaysian Institute of Certified Public Accountants

Agree (with no further comments)

Virginia Society of Certified Public Accountants

Agree (with no further comments)

8. Academics

University of KwaZulu-Natal

Agree, with comments below

9. Individuals and Others

Dr. Rasha Kassem

Agree (with no further comments)

John Keyser

Agree (with no further comments)

Moises Gonzalez Mercado

Agree (with no further comments)

09 Agree with comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Agree, with comments below

ED-240 establishes appropriate linkages to other ISAs, promoting integrated application. These linkages ensure a cohesive approach, enhancing consistency and effectiveness in addressing fraud risks across all audit procedures.

Financial Reporting Council – United Kingdom

Agree, with comments below

See our response to Q5 where we explain that there should also be a link to paragraph 13 of ISA 701.

Independent Regulatory Board for Auditors – South Africa

Encouraging the IAASB to select a uniform approach to building on the foundational requirements from other standards, and balancing incorporating the principles from other ISAs and tailoring those principles to be relevant to the auditor's responsibilities related to fraud in order to promote understandability.

Agree, with comments below

Our responses to earlier questions in our comment letter refer to linkages with other ISAs and include proposals related to where these linkages can be improved.

In relation to the auditor's responsibilities, we motivate that the introduction section to ED-240 could benefit from elaborating on the requirements in ISA 220 (Revised), emphasising the engagement partner's broader leadership responsibilities which encompasses creating an audit environment that is conducive to fraud risk identification.

In relation to non-material fraud, we propose a clearer link between ED-240 and ISA 450, Evaluation of Misstatements Identified During the Audit as it relates to the determination of material versus non-material fraud.

In relation to third-party fraud, we identify that the premise in ISA 500, Audit Evidence, that the reliability of audit evidence is increased when it is obtained from independent sources outside the entity may be a limitation to the auditor's ability to fulfil its responsibilities related to third-party information.

As it relates to risk identification and assessment, we propose: striking the right balance between incorporating principles from ISA 315 (Revised 2019) and other ISAs and tailoring those principles to be relevant to the auditor's responsibilities related to fraud in order to promote understandability.

That the current approach to building on the foundational requirements from other ISAs appears inconsistent and could benefit from a uniform approach to prevent requirements that are scattered across the ISAs and a disconnect between principles addressed in the different phases of the audit i.e., risk identification and assessment versus response.

Regarding enhanced transparency, we encourage the IAASB to consider proposed enhancements to the director's responsibilities paragraph in the auditor's report (ISA 700 (Revised) paragraph 34) to further support transparency of fraud-related responsibilities in the public interest.

Lastly, in considering all the enhancements made in ED-240, we were concerned that the auditor's responsibilities related to fraud in the context of a group audit and the potential complexities that may exist in a group audit scenario may have not been appropriately addressed i.e. as it relates to the linkage with ISA 600 (Revised). We propose that the IAASB consider explicit acknowledgement of the communication requirements in a group audit in ED-240.

Irish Auditing & Accounting Supervisory Authority

Agree, with comments below

While we welcome the improved links to other ISAs, we think that ED 240 could be clearer on the importance of its interaction with ISA 250, for example by including a reference to ISA 250 in the introductory section (e.g. paragraph 1).

4. Jurisdictional and National Auditing Standard Setters

American Institute of Certified Public Accountants

Agree, with comments below

Overall, we believe ED-240 has the appropriate linkages to other ISAs. However, as stated in our response to question 5, we believe the requirements and application material relating to fraud KAMs should be moved to ISA 701 and retain the linkage from ED-240 to ISA 701.

As stated in our response to part A and question 3 of this letter, we are concerned that the linkages between ED-240 and ISA 315 (Revised 2019) might inadvertently lead auditors to duplicate risk assessment procedures and related documentation. We encourage the IAASB to further clarify in ED-240 which fraud-related risk assessment procedures are truly incremental compared to those that are repeated from other ISAs and emphasize that incremental fraud risk assessment procedures should be integrated into the auditor's overall risk assessment procedures. Additionally, we recommend the IAASB update the Nonauthoritative Guidance on Fraud in an Audit of Financial Statements "The Fraud Lens — Interactions Between ISA 240 and Other ISAs" issued in May 2022 to better explain the linkages between ED-240 and other ISAs (in particular, ISA 315 (Revised 2019)). One way in which to help practitioners understand and apply the "fraud lens" when performing risk assessment procedures may be to illustrate the linkages similar to the flowchart in ISA 540 (Revised) Implementation Tool. Please see the appendix "Linkages Between ISA

Risk Assessment Requirements and ED-240” at the end of this comment letter as a possible way to illustrate such links.

Additionally, as noted in our response to question 7, we recommend that ED-240 link to the stand back provision in ISA 330. This linkage will serve as a reminder to auditors about the requirement to re-evaluate the sufficiency and appropriateness of audit evidence while also encouraging them to perform these procedures with a fraud lens.

Auditing and Assurance Standards Board Canada

Agree, with comments below

We support the linkages mentioned in the question. However, we heard a concern that there is one other ISA where the linkage is not clear.

Linkage to ISA 550, Related Parties

ISA 550, paragraph 14 requires understanding controls for significant and unusual transactions:

14. The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:

- (a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework;
- (b) Authorize and approve significant transactions and arrangements with related parties; and
- (c) Authorize and approve significant transactions and arrangements outside the normal course of business.

The controls around significant and unusual transactions are susceptible to management overriding controls and may present fraud risk factors. The connection to ISA 550 is not clearly articulated in ED-240.

Suggest:

Adding requirement or application material in ED-240 to explain the linkage between the requirement in ISA 550, paragraph 14 to understand controls for significant and unusual transactions and the risk of management override of controls.

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

Agree, with comments below

For the most part, we agree that ED-240 has appropriate linkages with other ISAs. However, we encourage the IAASB to ensure that wording is consistent with other standards. For example, in paragraphs A26 to A29 of ED-240 we note inconsistency in wording compared with similar paragraphs in ISAs 200 and 500 (e.g., genuine vs authentic, terms in a document are modified vs falsified, authenticity of information vs reliability of information). Differences in terminology could lead to unintended interpretation differences.

Maintenance of ISA for LCE

When the IAASB issued ISA for LCE, it indicated there would be a period of stability of at least three years once the standard becomes effective (i.e., the first revision to the ISA for LCE would not become effective before December 15, 2028).

Entities of all sizes and complexities are susceptible to fraud. The proposed revisions to ISA 240 fundamentally change the way the auditor thinks about fraud risks in the financial statement audit. We believe that it is in the public interest that these changes on fraud also apply to audit of a less complex entity. We therefore urge the IAASB to have more urgency in considering how revisions to the fraud auditing standard might impact the ISA for LCE, noting that there may be a greater risk of fraud in a less complex entity.

We also urge the IAASB to be transparent about its plans to update and maintain the ISA for LCE in line with relevant revisions to the ISAs.

Royal Dutch Institute of Chartered Accountants

Agree, with comments below

In our view the references indicate that ISA 240 integrates what the auditor is supposed to do, with focus on fraud. We expect conforming amendments to extant ISAs (250, 315, 700, 701) once the ED-240 had been finalized.

Saudi Organization for Chartered and Professional Accountants

Agree, with comments below

SOCPA believes that the proposed revisions in ED-ISA 240 have promoted the integration between the ISAs. However, a better linkage to ISA 610 may help enhancing the discussion related to the assessment of fraud risks (including the procedures to understand the entity's internal control systems and environment). Since internal auditors bear professional duties in relation to fraud risks, enhanced cooperation with internal auditors may serve the objectives that the proposed revisions in ED-ISA 240 are seeking to accomplish. For instance, the application material (A57) introduces the effectiveness of internal audit function as a mitigating factor for the fraud risk. This should be considered more in the standard through enhanced linkage to ISA 610. Although there is a reference to ISA 610 in the proposed application material A94, we believe that linkage to ISA 610 could be enhanced more in the proposed revisions.

5. Accounting Firms

BDO International

Agree, with comments below

We generally agree with the approach to linking to other ISAs in ED-240, including not repeating the requirements and application guidance in other ISAs. The linkage between ISA 250 and ED-240 is relatively clear. However, we suggest that paragraph A18 regarding the relationship of fraud with corruption, bribery and money laundering should be referenced to paragraph 14 as it relates more closely to non-compliance with laws and regulations (ISA 250).

CohnReznick

Agree, with comments below

Refer to our responses to Questions 4 to 7 above which includes a discussion of our concerns related to the linkages between ED-240 and other ISAs, including ISA 701.

Crowe

Agree, with comments below

See our responses to Questions 3, 5, and 7 related to risk assessment per ISA 315 (Revised), KAM reporting matters per ISA 701, and consideration of stand-back requirements.

Deloitte

Agree, with comments below

We generally agree that ED-240 has appropriate linkages to other ISAs but, as commented in our response to Question 5, we disagree with the fraud-related KAM requirements and guidance within ED-240. We believe that ISA 701 should continue to be the source for requirements and any related application material related to KAMs. Also, refer to our comments in response to Question 3 regarding additional clarity when linking to ISA 315 (Revised 2019) requirements.

Ernst & Young Global

Agree, with comments below

Generally, we believe ED-240 has the appropriate linkages to other ISAs to promote the application of the ISAs in an integrated manner and we believe the alignment in structure with ISA 315 (Revised 2019) is a significant improvement. However, we have some concerns about the linkage to certain ISAs, as explained below.

Linkage with ISA 315 (Revised 2019) and ISA 330

We have some concerns about the clarity of the requirements and their consistency with ISA 315 (Revised 2019) (refer to our response to Q3). We also do not believe the restructuring of the documentation requirements in ED-240 provides the appropriate linkages to the requirements of ISA 315 (Revised 2019) and ISA 330. Absent this linkage, we believe ED-240 implies these requirements are separate and distinct from the procedures performed in accordance with ISA 315 (Revised 2019) and ISA 330 (refer to our response to Q10).

We also suggest that the IAASB add a linkage in paragraph 3 of ED-240 to the requirement to understand and evaluate the entity's control environment in ISA 315 (Revised 2019) paragraph 21. We believe the linkage to ISA 315 (Revised 2019) would be helpful to explain that a lack of involvement or commitment by management or those charged with governance for the prevention and detection of fraud, and their commitment to creating and maintaining a culture of honesty and ethical behavior, can affect the auditor's evaluation of the entity's control environment as required in ISA 315 (Revised 2019).

Linkage with ISA 600 (Revised)

We suggest that the IAASB consider ISA 600 (Revised) and whether it is clear how the revisions and incremental requirements in ED-240 are to be applied in group audits, particularly as it relates to responding to identified or suspected instances of fraud.

Linkage with ISA 250 (Revised)

We have concerns about the linkage between ED-240 and ISA 250 (Revised) as follows:

As explained in our response to Q4, the requirement to communicate fraud or suspected fraud as proposed in ED-240 paragraph 67 is inconsistent with the requirement in ISA 250 (Revised) paragraph 23.

We agree with the IAASB's addition of the statement in paragraph 14 of ED-240 that "for the purposes of this and other relevant ISAs, fraud constitutes an instance of non-compliance with laws and regulations," however, we believe conforming amendments to ISA 250 (Revised) are needed to make this relationship

clear. We suggest paragraph A6 of ISA 250 (Revised) is amended to state that fraud is a sub-set of non-compliance with laws and regulations and therefore, the requirements of both ISA 250 (Revised) and ISA 240 are applicable. In addition, the IAASB could make it clear in paragraph A6 of ISA 250 (Revised) that corruption, bribery and money laundering (as described in paragraphs A18 and A19 of ED-240) may be fraudulent acts, or may be carried out to facilitate or conceal fraud, in which case the requirements of ISA 240 are applicable.

Linkage with ISA 700 (Revised)

Refer to our response to Q4 for our comment on the necessity to align the conforming amendment to ISA 700.40(a) in ED-240 to the requirement in paragraph 67 of ED-240 regarding our communications with those charged with governance about identified or suspected fraud.

Linkage with ISA 550

As part of the IAASB's consideration of the auditor's responsibilities for third-party fraud, we encourage the IAASB to consider whether further revisions may be warranted to ISA 550 to better explain the linkage of the concepts of related parties and third parties, with a further clarification that related party fraud is a type of third-party fraud that is subject to ISA 240.

Written representations

Refer to Q10 for our comments related to paragraph 65 of ED-240 and the need to better align these requirements in ED-240 related to written representations with certain related requirements in ISA 210 and ISA 250 (Revised).

Grand Thornton International

We suggest adding a requirement after ED-240, paragraph 65 to link to ISA 580, paragraph 20 which requires the auditor to disclaim an opinion on the financial statements, in accordance with ISA 705 if the auditor concludes that there is sufficient doubt about the integrity of management [and those charged with governance] such that the written representations required are not reliable. We believe based on the precedent set earlier in the standard linking to other ISAs that it is appropriate to capture the auditor's requirements when they are unable to obtain representations from management or those charged with governance when they are involved in the identified or suspected fraud.

Agree, with comments below

Overall, we believe ED-240 has appropriate linkages to other ISAs; however, we have concerns about the anticipated maintenance that will be required to maintain the suite of ISAs, especially given the upcoming Integrated Audit Evidence and Risk Response project, which could result in conforming amendments to ED-240 just as it becomes effective.

Additionally, we have concerns about the linkage in ED-240 to ISA 560 and ISA 330 as we think ED-240 blurs the separate requirements related to testing journal entries and other requirements. We suggest the IAASB add clarifying language to the requirements in ED-240, paragraphs 49 – 50 and related application material to apply the fraud lens to these requirements.

PriceWaterhouseCoopers

Agree, with comments below

Subject to our comments in response to question 2 (ISA 200) and question 3 (ISA 315 and ISA 500), we broadly agree that ED-240 has appropriate linkages to other ISAs and promotes application of the revised standard in the context of the other ISAs in an integrated manner.

Regarding the linkages to ISA 220 (Revised), specifically in the context of the involvement of forensic specialists, we consider it important that the involvement of forensic specialists is clearly understood in the context of the scope of an audit. The auditor's responsibilities may be further misunderstood if stakeholders perceive the involvement of forensic specialists as implying an extended or different scope of the auditor's work, which is not the intention of ED-240. We consider the proposed requirements to be appropriate (i.e., not mandating the involvement of forensic specialists but requiring an engagement partner determination of whether the engagement resources are appropriate). We furthermore consider the illustrative examples in the application material to be helpful and appropriate and, in our view, they highlight the important fact that there may be a spectrum of involvement of (forensic) specialists and that the decision whether or not to involve them is dependent on the engagement circumstances.

RSM International

Agree, with comments below

We found Appendix 5, Other ISAs Addressing Specific Topics that Reference Fraud or Suspected Fraud, of ED-240 useful in identifying the linkages to other ISAs to promote the application of the ISAs in an integrated manner.

6. Public Sector Organizations

Office of the Auditor General of Canada

Agree, with comments below

To enhance the integration of ISAs, we suggest that a link to ISA 580, Written Representations be included under paragraph 65 - Written Representations, and a link to ISA 260 be included under paragraphs 66 and 67 - Communications with Management and Those Charged with Governance as these requirements are directly linked.

Appendix 5 - Other ISAs Addressing Specific Topics that Reference Fraud or Suspected Fraud could also include ISA 260 and 265.

7. Member Bodies and Other Professional Organizations

Asociacion Interamericana de Contabilidad

Agree, with comments below

Yes, ED-240 establishes appropriate linkages with other International Standards on Auditing (ISAs) to promote the application of ISAs in an integrated and cohesive manner. The document explicitly references and aligns with several key ISAs, ensuring that auditors can interpret and apply the requirements consistently in the context of the audit of financial statements.

ISA 200 General Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing. ED-240 reaffirms the principles of ISA 200 on obtaining reasonable assurance and exercising professional skepticism.

ISA 220 (R) Quality Control for an Audit of Financial Statements. Links to ED-240 in terms of ensuring the quality and adequacy of procedures in response to fraud.

ISA 315 (R in 2019) Identifying and Assessing the Risks of Material Misrepresentation. ED-240 uses this standard as the basis for fraud risk assessment, providing guidance on how to identify and respond to specific fraud risks.

ISA 330 Auditor's Responses to Assessed Risks. ED-240 details how responses to fraud risks should be designed and executed based on the principles of ISA 330.

ISA 500 Audit Evidence. ED-240 stresses the importance of obtaining adequate and appropriate evidence in response to fraud risks, in line with ISA 500.

ISA 520 Analytical Procedures. Reinforces the application of analytical procedures as a tool to detect possible fraud, relating it to the practices established in ISA 520.

ISA 540 (R) Auditing Accounting Estimates and Related Disclosures. ED-240 relates to this standard in the context of accounting estimates, areas often susceptible to fraud.

ISA 701 Communication of Key Audit Matters in the Independent Auditor's Report. ED-240 supports transparency and effective communication about fraud matters, in line with ISA 701.

These linkages ensure that ED-240 is not only consistent with other existing standards, but also promotes an integrated and efficient application of all ISAs, effectively addressing fraud across multiple aspects of the audit.

Center for Audit Quality

Agree, with comments below

Refer to our responses to Questions 3 (risk assessment), 5 (KAMs) and 7 (stand-back requirements) regarding our concerns related to the linkages between ED-240 and other ISAs.

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

Agree, with comments below

We agree that ED-240 has appropriate linkages to other ISAs with the exception of the challenges raised in responses to other questions of ED-240. We also wonder why ISA 250 was not part of the list of standards outlined in this question given that some of the revisions such as those in paragraph 9 and paragraph A16 relate to the linkages of ED-240 and ISA 250.

CPA Australia

Agree, with comments below

We note that the question above does not include reference to the linkages between ISA 250 Consideration of Laws and Regulations in an Audit of a Financial Report (ISA 250 Revised) and ISA 240. This could be a minor drafting issue as paragraph 82 of the EM specifically addresses clarifying the relationship between ED-240 and ISA 250 (Revised).

CPA Ontario Small and Medium Practices Advisory Committee

Agree, with comments below

Yes, ED-240 has been structured to align and integrate effectively with other ISAs to promote a cohesive application across the auditing process. This integration is crucial for ensuring that the auditor's approach to fraud is consistent with the general principles and detailed procedures outlined across the ISA suite.

Institute of Certified Public Accountants of Rwanda

Agree, with comments below

ED-240 appears to have appropriate linkages with other ISAs and this is reinforced with the new introduced section that explains the relationship between ED-240 and other ISAs including usage of the terminology “In applying ISA...or In accordance with” as a reference.

Institute of Certified Public Accountants of Uganda

Agree, with comments below

We believe that the ED-240 has appropriate linkages to other ISAs and are appreciative of the fact that it was done in a proper way to avoid duplication of the other ISAs.

Pennsylvania Institute of Certified Public Accountants

Agree, with comments below

The committee agrees with the linkage of ED-240 and other standards. At the same time, there are overlapping requirements in ED-240 and ISA 315, Risk Assessment, that may lead a practitioner to believe that the requirements are incremental. It could be helpful to practitioners’ implementation that the incremental requirements be highlighted in a way that emphasizes which fraud risk procedures should be integrated into the auditor’s overall risk assessment procedures.

South African Institute of Chartered Accountants

Agree, with comments below

The ED-240 does not have guidance on how to respond to fraud in group audits, specifically, how to scale the audit procedures for various frauds that may not be individually material but could be qualitatively material if considered collectively.

In addition, it doesn’t address challenges such as how to respond to frauds that occur at a lower level within the group, which may be perpetrated by management, and how the auditor should approach these when they are identified by internal auditors. We are of the view that guidance should be included in the standard to assist auditors with regards to risks related to transfer pricing.

The link to ISA 220 (Revised) can be further strengthened with regards to application guidance on possible risk factors identified during acceptance and continuance and utilization of a fraud expect where appropriate.

We recommend that as part of ISA 700 (Revised), the IAASB should consider elevating the responsibilities of management and those charged with governance with regards to fraud in the audit of financial statements, on the audit report to enhance transparency

09 Neither agree nor disagree

1. Monitoring Group

International Organization of Securities Commission

Refer to our responses to other questions within this comment letter where we provided specific feedback regarding the appropriateness of linkages to other ISAs.

2. Investors and Analysts

Corporate Reporting Users' Forum

Neither agree/disagree, but see comments below

We are concerned that it is not easy for financial statement users to understand the interplay between how ED-240 suppose the auditor's responsibilities on fraud throughout the audit process with the other responsibilities, including communication with management and the TCWG. Moreover, we do not think the financial statement users fully understand the relationship between fraud in ED-240, illegal conduct in ISA250 and NOCLAR in IESBA's Ethical Standards. We encourage the IAASB to develop educational material with the IESBA to explain these matters for those who are not very familiar with ISAs and Ethical Standards.

Eumediton

Neither agree/disagree, but see comments below

We find it rather difficult to judge whether ED-240 has appropriate linkages to other ISAs, given our investor perspective.

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

Paragraph 14 states that "fraud constitutes an instance of non-compliance with laws and regulations" (NOCLAR). This may also apply the other way around as NOCLAR could also be fraud. This is not clear in the current versions of ED 240 and ISA 250. We urge the IAASB to make amendments and add additional explanations in the final version of ED 240 on this subject to make it clearer. Language such as: 'Because of the nature of some instances of non-compliance with laws and regulations, they meet the definition of fraud (refer to the definition in paragraph 18a), such as corruption, money laundering and breach of competition law (cartel)' could be used.

While we welcome the improved links to other ISAs, we think that ED 240 could be clearer on the importance of its interaction with ISA 250, for example by including a reference to ISA 250 in the introductory section (e.g. paragraph 1).

4. Jurisdictional and National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants

To improve the linkages between this standard and other ISA, we suggest including in Appendix 5 all relationships to other ISA as explained in the "non authority guidance fraud lens – interactions between ISA 240 and other ISAs" and add the ISA 220 regarding the aspect of consultation.

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

Neither agree/disagree, but see comments below

We agree with the clarification and reinforcement of the relationship between ED-240 and other ISAs and also with the statement ED-240 should, not repeat the requirements and application material in other ISAs. Having said that, we would have expected a lot of conforming amendments in the other ISAs, because fraud

related matters are now addressed in ISA ED-240. Scanning the conforming amendments we did not see any curtailments in the other ISAs.

We therefore believe that linkages to other ISAs are too detailed.

Institut der Wirtschaftsprüfer in Deutschland

Issues we have identified in which the draft is not aligned with other ISAs – in particular, ISA 315 (Revised 2019). Among other matters, of particular importance is the inconsistency in treating all risks of material misstatement due to fraud as significant risks (as newly defined in ISA 315 (Revised 2019) as being at the upper end of the spectrum of the assessed risks of material misstatement), but yet require more persuasive evidence the higher the assessed risks of material misstatement due to fraud. Similar considerations apply to management override of controls. Another important concern in this respect is the misalignment between fraud risk factors and inherent risk factors. We have also noted that reference is often made to management bias, when in fact only intentional management bias would be fraudulent and therefore covered by ISA 240. (Primarily responses to Questions 3 and 9, but throughout the responses)

Neither agree/disagree, but see comments below

Other than the matters addressed in our responses to the Questions above and below referring to inconsistencies with other ISAs or where the linkages to other ISAs could be improved, we believe that the draft has appropriate linkages to other ISAs. For reference, we note the following responses we provided, to the questions, in which we had concerns about the linkages to the other ISAs:

Question 1: The linkage to ISA 250 (Revised) could be improved by clarifying that ISA 250 (Revised) is not applied in addition to ISA 240 unless additional requirements regarding non-compliance with laws and regulations apply.

Question 2:

The linkage to ISA 220 (Revised) and ISA 315 (Revised 2019) regarding the use of information obtained during the acceptance and continuance process when considering past experience about the honesty and integrity of management

The linkage to ISA 200, in particular what professional skepticism involves

The linkage to ISA 500, clarifying that professional skepticism is exercised when evaluating the reliability of information to be used as audit evidence, rather than as the reason for evaluating the reliability of such information, which is already required by ISA 500

The linkages to ISAs 315 (Revised 2019) and 330, in which it is not the reliability of controls that is tested, but their design effectiveness and implementation in certain circumstances (ISA 315) or their operating effectiveness when they are being relied upon (ISA 330)

Question 3: Many linkages to ISA 315 (Revised 2019) can be improved, including those relating to:

Inherent risk factors vs. fraud risk factors

Treatment of all assessed risks of material misstatement due to fraud as significant risks

Treatment of all risks of management override of controls as significant risks

Issues with the engagement team discussion (also relates to ISA 220 (Revised))

Treatment of management bias

References to fraud

Control deficiencies (also relates to ISA 265)

Treatment of prior-period estimates (ISA 540)

Information from other sources (ISA 265)

Additional incongruencies with ISA 315

Question 5: Alignment with ISA 701

Question 10: Conforming amendments and alignment with CUSP

At various places throughout our responses, we note that reference is made to “management bias”, rather than “intentional management bias”. ISA 540 (Revised) covers both with respect to accounting estimates, but ISA 240 would only cover intentional management bias, which represents fraud – not unintentional bias, which represents error and would be covered by ISAs 315 and 330, etc. In those places, we note were the word “unintentional” needs to be deleted or “intentional” needs to be inserted to clarify this.

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:

Instituto de Auditoria Independente do Brasil

improve linkage with ISA 600 Revised to address fraud that may arise at components, highlight the importance of the involvement of component auditors and their exercise of professional skepticism, specially when the component is located at “higher risk” jurisdictions (e.g. due to rapidly changing regulatory environment, business landscape and subject to heightened fraud risks)

Neither agree/disagree, but see comments below

Please also consider the response to question 3.

5. Accounting Firms

Forvis Mazars

Neither agree/disagree, but see comments below

See our responses to other questions for examples relating to linkages and potential circularity/repetition of other standards, including ISA 315.

KPMG International

Linkage to ISA 330 – we note that the requirements in this section of the standard are not clearly aligned with those in ISA 330, although there are certain high-level cross-references. Accordingly, we recommend that ED-240 more clearly set out fraud-specific incremental requirements to ISA 330 and require the auditor to apply a “fraud lens” when addressing fraud risks at the financial statement level and at the assertion level. We suggest that ED-240 include more explicit guidance for the auditor to help ensure that audit procedures are appropriately targeted to respond to identified and assessed fraud risks, taking account of relevant fraud risk factors identified.

Neither agree/disagree, but see comments below

We note that several of the proposed changes to ED-240 aim to include better linkage to other ISAs (including ISA 200, ISA 220R, ISA 315R, ISA 330, ISA 500, ISA 520, ISA 540R, ISA 701), and we are supportive of these, both in order to avoid duplication of material, as well as to promote the application of the ISAs in an integrated manner. In particular, we are supportive of the alignment with the structure and flow of ISA 315R, and the linkages to that standard.

However, we make certain recommendations throughout this response, including in Appendix 1, for clearer linkage to other ISAs in respect of particular aspects related to fraud in an audit of financial statements.

Non-Compliance with Laws and Regulations (NOCLAR)

One of the stated aims of the IAASB in developing ED-240 is to clarify the interrelationship between ED-240 and ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*.

However, we do not consider that ED-240 has appropriately clarified the interrelationship between ED-240 and ISA 250 in stating, at ED-240.14, that fraud constitutes an instance of NOCLAR, as it does not appear to differentiate between different types of fraud or suspected fraud, as to when the requirements of ISA 250 would be applicable. We recommend that the IAASB clarify that not all instances of fraud or suspected fraud that the auditor identifies will require the auditor to apply the requirements of ISA 250, rather, it is fraud or suspected fraud that falls within the definition of “non-compliance” in ISA 250.12, that ISA 250 is intended to address. We believe that matters such as misappropriation of assets by an individual, whilst an illegal act, should not generally give rise to the need for the auditor to perform audit procedures to comply with the requirements of ISA 250 in respect of the matter, if the fraud was not perpetrated at the direction of, or on behalf of, the entity. Accordingly, we recommend that the IAASB explicitly clarify that not all instances of fraud/suspected fraud would constitute “non-compliance” with laws and regulations, based on the meaning that is attributed to this term in ISA 250.12, and therefore the requirements of the standard would not always apply.

Furthermore, we highlight that there is an interaction between the concept of fraud and that of breaches of laws and regulations, which have a degree of overlap, especially in the case of intentional violations. In the context of laws and regulations, ISA 250.5 explicitly acknowledges the potential effects of inherent limitations on the auditor’s ability to detect material misstatements for various reasons, including that there are many laws and regulations that typically do not affect the financial statements directly, and non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls and intentional misrepresentations made to the auditor (which would likely constitute fraud). ISA 250 notes that the auditor’s responsibilities with respect to laws and regulations that do not have a direct effect on the financial statements are limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

We recommend that ED-240 improve linkage to the auditor’s responsibilities with respect to laws and regulations and the related inherent limitations of an audit in this specific area, and explain how these may interact with the auditor’s responsibilities with respect to fraud in an audit of financial statements. We believe it is important that ED-240 not be perceived as broadening the auditor’s responsibility to detect non-compliance with respect to laws and regulations that do not have a direct effect on the financial statements beyond those of ISA 250, when there has been conduct to conceal such non-compliance.

6. Public Sector Organizations

Government Accountability Office – United States

We do not believe the approach taken to link the standards consistently communicates a specific fraud focus. Instead, in places ED-240 repeats requirements from other ISAs with changes that are intended to be specific to ED-240 but are unclear in their design. We recommend more succinctly linking ED-240 to the other ISAs and then providing additional application material paragraphs that specifically explain the application of the other ISA requirements for ED-240.

While we support sufficiently linking ED-240 to other ISAs, we do not believe the approach taken to link the standards consistently communicates a specific fraud focus. Instead, in places ED-240 repeats requirements from other ISAs with changes that are intended to be specific to ED-240 but are unclear in their design. We recommend more succinctly linking ED-240 to the other ISAs and then providing additional application material paragraphs that specifically explain the application of the other ISA requirements for ED-240.

7. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants in England and Wales

Neither agree/disagree, but see comments below

Notwithstanding IAASB's efforts to incorporate and reference material from other auditing standards in ED-240, we note elsewhere in this response several examples of material inappropriately excluded or included from other ISAs, and issues of alignment and repetition with little substantially new or fraud-specific perspectives, such as:

Removal of the reference to auditor acceptance of documents and records as genuine from ISA 240, and its preservation in ISA 200 (Question 2).

Repetition of material relating to professional scepticism from ISQM 1 and ISA 220 with no ostensible fraud-specific angle (Question 2).

Repetition of and circularity of references to ISA 315 (Revised 2019) with insufficient application of the 'fraud lens' (Question 3).

Misalignment of fraud risk assessment considerations between ED-240 and ISA 315 (Question 3).

Institute of Chartered Accountants of Scotland

Neither agree/disagree, but see comments below

We believe there remains further scope for improving such linkages. In particular:

we would highlight as per our response to question 2 above, the need to cross-refer to the content in ISA 200 on document authenticity.

as noted in our response to question 3 the interaction between the requirements of ED-240 and ISA 315 could be improved.

International Federation of Accountants

We are mindful there has also been a substantial increase in the length of the standard and included application material. Some of the content is repetitive with the same concepts discussed again. Increasing the efficiency of wording within the standard would help improve its effectiveness by making it easier to use

for practitioners. As an example, the proposed statement in the guidance paragraph A162 is largely redundant as it repeats content already present as a requirement in paragraph 61. Similarly, there appears to be some overlap between the examples set out in paragraphs A2 to A6 and the examples of fraud risk factors set out in Appendix 1. They may also be opportunities to remove duplication arising from examples provided in other standards, for example the three examples described in A138 of ED-240 are already present in A134 of ISA 540 (Revised).

Linked to the above, we have two more general observations in terms of recent projects. The pace and rate of change continues to make it difficult, especially for smaller practitioners, to apply new requirements and guidance effectively. Furthermore, there is a challenge with regards to the structural development of some recent projects and the proposals in ED-240 illustrate this. ISA 240 sits within 200 series, so the focus should be on overall objectives and fundamental concerns. However, the proposals in ED-240 extend into assessment and responses to risks in places, which would be in the territory of ISA 315 (Revised 2019) and ISA 330. Whilst we understand that it might be useful to have additional guidance in these areas, the requirements of other standards will always apply, so a question then rises as to what level of duplication is appropriate or acceptable if such an approach is adopted. This may also be something that creates additional complexity, especially for SMPs where central interpretation of requirements under a standardized methodology would be less common. As the majority of the users of the ISAs remain SMPs, it is essential the standards cater to their needs.

Neither agree/disagree, but see comments below

We have mixed views in relation to the linkages made, noting that while they add length to the proposed standard, they also provide helpful direction of where to obtain further information and context for users, particularly those using electronic versions of the standard where navigability would be easier. The risk of this approach is that the added length could make it harder to identify new requirements in an easy way, and that these linkages could create confusion or added complexity for some users.

In particular, the delineation to ISA 250 (Revised) is not clear. We recommend including a clear statement that ISA 240 applies to the auditor's responsibilities regarding fraud and not ISA 250 (Revised) in addition to ISA 240, because otherwise the first sentence of paragraph 14 could be interpreted to mean that auditors would need to apply both standards at the same time, which would lead to duplication of work effort. We suggest that a sentence be added at the end of this paragraph as follows: "However, even though fraud constitutes an instance of non-compliance with laws and regulations, auditors are not required to apply ISA 250 (Revised) to identified or suspected fraud in addition to this ISA unless the additional responsibilities described in ISA 250 (Revised) are relevant in the circumstances."

9. Individuals and Others

Colin Semotiuk

Neither agree/disagree, but see comments below

As noted above, ED-240 inappropriate transitions ISA 240 from a standard on an auditor's responsibilities relating to fraud for a financial statement audit to a financial statement auditor must also complete an individual audit of possible fraud. This is further supported by the number of paragraphs that link to other ISAs, including ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330, ISA 500, ISA 520, ISA 540 (Revised), etc.

This is further demonstrated by the number of references to other ISAs in 240, not just the individual standards. Some examples include, Obtaining an Understanding of the Entity and Its Environment, the

Applicable Financial Reporting Framework and the Entity's System of Internal Control is seven paragraphs (33-39). All seven paragraphs reference to another ISA, specifically ISA 315 (Revised 2019). Risk Assessment Procedures and Related Activities is seven paragraphs, (26-32), and only two paragraphs do not reference another ISA. The fact that ED-240 so extensively prescribes requirements of the financial statement auditor, (note these are "shall" procedures), based on other ISAs, clearly demonstrates either the other ISAs have flaws and should have include specific sections of fraud, or that ED-240 is incorporating a separate fraud engagement into all financial statement audits.

09 Disagree

4. Jurisdictional and National Auditing Standard Setters

Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables

Disagree, with comments below

We take the opportunity of our response to this question to point out that the architecture of the ISA for LCE, which approach is consistent with the audit approach, shows that there are other ways of structuring the ISAs than dealing with the different subjects by thematic order (fraud, related parties, laws and regulations, etc.), as is currently the case in the ISAs. The present structure of the ISAs is a heritage of the past, built over the years, which is increasingly difficult to understand since it does not clearly convey the flow and the integrated and iterative approach of today's audits.

We also suggest that the document "The Fraud Lens – Interactions Between ISA 240 And Other ISAs" (May 2022) be updated.

Nordic Federation of Public Accountants

Disagree, with comments below

In recent revisions of the ISAs IAASB have included extensive references to other ISAs and to some extent repeated requirements that already exist in other ISAs. This cross referencing makes it harder for a practitioner to understand and adhere to the ISAs. Larger firms and networks have the resources to develop methodologies and systems covering the ISAs but smaller firms and smaller PAOs do not have those resources. This way of drafting makes us wonder who the standards are written for, the large accounting firms' software or the individual auditor?

According to the EM this way of drafting is intended to promote an integrated risk-based approach with respect to fraud. We are not convinced that it works, especially regarding the relationship between ED-240 and ISA 315 (Revised). In applying ISA 315 (Revised) with the "fraud lens" we believe it would be much more user friendly and make more sense to include the fraud lens within ISA 315 (Revised). Overall, sometimes the many "in applying ISA XXX" paragraphs seem to be more focused on the alignment with other standards than on the subject matter that the revisions are meant to address. At least there is a risk when navigating between the different standards that the user loses focus on what the practitioner actually needs to do.

One of the key issues related to linkages between ED-240 and other ISAs which the ED is trying to address is the relationship between ISA 240 and ISA 250 (Revised). Paragraph 81 a) in the EM states: "...more clarity is needed if a fraud is identified or suspected, whether the auditor is performing procedures to comply with ISA 240 or ISA 250 (Revised)". In our view the mentioning in ED-240 of ISA 250 (Revised) is primarily a reminder not to forget that ISA 250 (Revised) also exists and there may be additional responsibilities in that

standard that the auditor also needs to comply with. However, the content in paragraph 14 of ED-240 could be further clarified to address the concerns referred to in paragraph 81 a) in the EM.

See also our response to Q 10.

Overall, we have noticed some drafting developments in recent IAASB projects, including ED-240, that worry us. For example, the standards keep getting longer and longer despite length and volume being some of the key issues with the current ISAs that were raised by respondents to the Discussion Paper from 2019: Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs. When the revised standards include a mixture of “nice to have” and “need to have” information there is a risk that the length itself and the number of changes make it difficult to distinguish what is really new and expected to drive a change in behavior.

Also, most of the time the added length relates to more application material. An imminent risk with this development is that detailed application material with several examples negatively affects the principle-based approach that is supposed to be characteristic of the requirements. The principle-based approach loses value and the standard itself contributes to a checkbox behavior where the scope for applying professional judgment also is being reduced.

We are aware that practitioners often ask for more guidance and examples. In our response to Q2 we have explained why we believe this would be better placed in complimentary non-authoritative documents.

Similarly, we are concerned about the abundance of references to other ISAs in recent IAASB projects, including in ED-240. One effect of this drafting approach is that the boundaries between what are – and what should be regulated in – the foundational standards compared to the more topical ones have become blurred. The basic ISA structure is no longer perceived as equally relevant.

For example, one could question if ED-240 still belongs in the 200-series, especially now since it also includes how to respond to fraud or suspected fraud. Also, given all references to ISA 315 (Revised), in particular how to apply ISA 315 (Revised) with the “fraud lens”, we wonder whether parts of what is now in ED-240 rather belongs in ISA 315 (Revised). We question whether the integrated risk-based approach works, especially with the drafting of the “fraud lens” to ISA 315 (Revised) in another standard.

Also, in order to try to address expectation gaps, or at least not create new ones, we believe it is very important not to refer to “fraud” or “suspected fraud” per se but link the fraud concerns to the risks of material misstatements of the financial statements. This is especially important in terms of external communication such as if the final version of this project will include KAMs in the audit reports that specifically address fraud.

5. Accounting Firms

MNP

Disagree, with comments below

We disagree with some of the linkages in ED-240 to ISA 250. There are many references in ED-240 to certain or applicable laws, regulations and aspects of relevant ethical requirements, that state that the auditor may need to perform a requirement due to law or regulation as a result of identifying a fraud (e.g., inform authorities). Regardless of what the auditing standard says, the auditor would be required to follow the applicable laws and regulations. ED-240 appears to be overreaching in these areas as they are going outside of the audit requirements themselves. There is guidance pertaining to corruption, bribery and money laundering in ED-240 which auditors are not required to detect as part of their normal audit procedures,

however, the inclusion of them may be interpreted by regulators to be an area where the auditor needs to perform work. Given the nature of how these illegal acts can be conducted, there is a high degree of complexity if the auditor were to be required to seek these acts out (many of these acts involve dollar amounts that would be immaterial). The inclusion of this guidance may potentially lead the auditor to be interpreted as a fact seeker in criminal proceedings, which we don't believe is the intention of this standard.

SRA

Disagree, with comments below

We refer to our detailed comments on part 3.

6. Public Sector Organizations

Riksrevisionen (Swedish National Audit Office)

Disagree, with comments below

Our conclusion is that the standard includes too much text (copy and paste) from other ISAs, specifically ISA 315. We do not see how this brings any value. In addition, there is also a risk of developing different interpretations of the same requirements as stated in for example ISA 315 vs. the same requirement stated in ISA 240.

have identified that the interpretation of the requirements in 315 are not the same as in the standard 315.

7. Member Bodies and Other Professional Organizations

Accountancy Europe

Disagree, with comments below

As noted in our response to earlier questions, ISAs should be considered as an integrated single set of standards. Therefore, reference to another ISA should be made only when there is a specific procedure to be performed in addition to or alongside those already required.

In particular, the relationship between ED-ISA 240 and ISA 250 (Revised) is not clear. ED-ISA 240 should clarify that even though fraud constitutes an instance of non-compliance with laws and regulations, auditors are not required to apply ISA 250 (Revised) to identified or suspected fraud in addition to ISA 240 unless the additional responsibilities described in ISA 250 (Revised) are relevant in the circumstances.

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

Chamber of Auditors of the Czech Republic

Disagree, with comments below

We believe that reference to another ISA should be made only when there is a specific procedure to be performed in addition to those already required.

9. Individuals and Others

Altaf Noor Ali Chartered Accountants

Response to 10.

10.1 The Code of Ethics directs the personality of the auditor. ED240 is a part of competency of the auditor. The cycle is not complete without the other. There should be a link between the two. An explicit link in the ED240 of competence with the compliance to the Code strengthens it.

An auditor balances the character with competency. Smaller variations between the two in a person is natural. An larger difference between the two is likely to be seen as a defect specially with an over-size competence.

R9: No.

Our reasons are as follows:

9.1 We consider the character and competence to be a balancing act for an auditor. The ED-240 is (mainly about the competence) not linked in any way to the Code of Conduct. The Standard remains incomplete without such explicit reference, for us.

9.2 ISA230 and ISA315(revised) and ISA 330 appears to be missing on the matter of documentation. See 10.1 below

09 No response

1. Monitoring Group

International Forum of Independent Audit Regulators

2. Investors and Analysts

CFA Institute

No response

3. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

European Securities and Markets Authority

5. Accounting Firms

Baker Tilly International

No response

7. Member Bodies and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

No response

Fraud Advisory Panel

No response

Malta Institute of Accountants

No response

Pan-African Federation of Accountants

No response

8. Academics

Accounting and Finance Association of Australia and New Zealand

No response

9. Individuals and Others

Albert Bosch

No response