

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

Guide for Respondents

Comments are requested by **June 5, 2024**.

This template is for providing comments on the Exposure Draft (ED) of *Proposed International Standard on Auditing 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs (ED-240)*, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the ED [web page](#) to upload the completed template.

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Chartered Accountants Ireland
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Anne Sykes
E-mail address(es) of contact(s)	Anne.sykes@charteredaccountants.ie
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Europe
	If "Other," please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Member body and other professional organization
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, question no. 10 in Part B allows for raising any other matters in relation to the ED).

Information, if any, not already included in responding to the questions in Part B:

PART B: Responses to Questions for Respondents in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Responsibilities of the Auditor

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?

(See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)

(See ED, paragraphs 1–11 and 14)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

In relation to the re-ordering of the introduction, we have concerns that putting the responsibilities of the auditor ahead of the responsibilities of Management and Those Charged With Governance indicates that the primary responsibilities in relation to fraud lies with the auditor. While we note this is an ISA, we would recommend putting the responsibilities of Management and Those Charged with Governance ahead of the Responsibilities of the Auditor or alternatively having an Overall Responsibilities section setting out the respective responsibilities.

Further, we have concerns regarding the auditor's responsibilities in relation to third party fraud:

- The ED is worded in a way that does not convey it is *not* the responsibility of the auditor to detect third-party fraud that is not directly related to a risk of material misstatement (ROMM) due to fraud- in particular we note that the definition of third-party fraud in A21 does not limit this to third-party fraud that poses a risk of material misstatement due to fraud. Per the Explanatory Memorandum, the IAASB are not looking to expand the role of the auditor in this area therefore we would recommend further wording is added to clarify the responsibility of the auditor in this area.
- ED-240, paragraph 29(a)(ii)(c) states that engagement teams, as part of their fraud risk factor discussion, should consider "how assets could be misappropriated by ... third parties"- we would recommend removing the reference to third party as it is not the auditor's responsibility to consider every potential instance of third-party misappropriation of assets. If this is not removed, we recommend more clarity around instances of third-party misappropriation and linkage to fraud risks is included.

ED Paragraph 1 second sentence states "The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs, in particular ISA 200, ISA 220 (Revised), ISA 315 (Revised 2019), ISA 330 and ISA 701.". We recommend that this sentence should specify "in relation to material misstatement arising from fraud".

There are some differences between the extant standard in Ireland (and UK) to the proposed international standard, and we believe some of the language used in the UK and Irish versions should be reflected in the international standard:

- ED Paragraph 4, the UK/Ireland version comments that fraud “involves deception”, we believe the revised standard should include this phrase.
- ED paragraph 6. “Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud.”. This is worded in the opposite way to the extant standard which notes “the auditor is concerned with fraud that causes a material misstatement”. Is the intention of the IAASB to move away from a completeness approach with this wording, starting with the identified ROMMs and then considering fraud in those areas rather than starting with where fraud could occur and determining whether that would be material?

Professional Skepticism

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

(See EM, Section 1-D, paragraphs 19–28)

(See ED, paragraphs 12–13 and 19–21)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

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

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)¹ and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?

(See EM, Section 1-F, paragraphs 36–46)

(See ED, paragraphs 26–42)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

We have the following suggestions to improve the clarity of ED-240, in particular in relation to building on the foundational requirements in ISA 315 (Revised 2019):

- ISA 315 (Revised 2019) is repeated in some instances (e.g. Paragraph 33 around obtaining an understanding of the entity and its environment including considering the entity’s organizational structure and ownership, the industry, performance measures) this is already included in ISA 315 (Revised) and should not be repeated here as it implies additional work effort will be required. Additional items added to build on the foundational requirements of ISA 315 (Revised 2019) should rather be added in ISA 315 (Revised 2019) directly instead of setting out additional requirements here, as the requirements in ISA 315 also has a fraud lens and not just in relation to risks of material misstatement due to error. Another example in relation to this is in paragraph 34 where there is a reference to the requirement to understand the entity’s information system and communication relevant to the preparation of the financial statements which shall include understanding how journal entries are initiated, processed recorded and corrected as necessary. ISA 315 (Revised 2019) already includes detailed consideration around information systems and communications.
- Paragraph 13 refers to “*the quality of judgments*” which is a subjective term. We recommend that a definition is added or explained further in application material
- Paragraph 33 of the current ISA 240 standard and ISA 540 (Revised), paragraph A57, currently states that a retrospective review of management judgments and assumptions related to “significant accounting estimates” is required. The term “significant” has been removed in ED-240, paragraphs 28, A47, and A136. By removing the word “significant” from ED-240 and ISA 540 (Revised), auditors would now be required to consider all estimates regardless of their nature, size, or inherent risk. Accordingly, we suggest that the IAASB add back the word “significant” to ISA 540 (Revised), paragraph A57, and ED-240, paragraphs 28, A47, and A136.
- We note that it would be helpful for paragraph A104 to indicate that the list of examples is not exhaustive- for example:

*“Relevant assertions and the related classes of transactions, account balances or disclosures that may be susceptible to material misstatement due to fraud include, **but are not limited to:**”*

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- Examples throughout the application material in A104 and A109 could be enhanced by providing a better linkage to fraud risk factors to result in better fraud risk identification and assessment.
- The wording in A110 noting that “The significance of fraud risk factors... related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.” is very strong in comparison to the extant standard where it notes “The presumption that there are risks of fraud in revenue recognition may be rebutted.”. We do not agree with the update to the wording as it indicates that it would be inappropriate to rebut the presumption, however there are a number of scenarios in which it would be appropriate to rebut the presumption.
- In relation to paragraph 41, the application material at A111 includes examples of when it is appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition, however these examples do not appear to mirror real-world scenarios and don’t look to allow for scalability e.g. the example in relation to leasehold revenue from one single unit doesn’t seem to allow for instances where there is more than one unit. We recommend additional guidance be added to the application material to allow auditors to make a judgement based on when it may not be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition as opposed to only when they can rebut. Further, A111 could be enhanced by providing a better linkage to fraud risk factors to result in better fraud risk identification and assessment.

Fraud or Suspected Fraud

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)

(See ED, paragraphs 55–59 and 66–69)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any):

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

5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor’s report?

(See EM, Section 1-H, paragraphs 58–78)

(See ED, paragraphs 61–64)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

We support the IAASB's effort to enhance transparency around the auditor's responsibilities related to fraud in an audit of financial statements. However, we believe that the proposal to introduce Key Audit Matters (KAMs) related to fraud does not meet this objective due to the following reasons:

- Paragraph 62 requires an auditor to determine which of the matters determined in accordance with paragraph 61 were of most significance and, therefore, are key audit matters. We foresee several issues with this:
 - As it relates to paragraph 61(b), an auditor should not be required to report matters of fraud or suspected fraud, that may not be public knowledge. It should not be the auditor's responsibility to disclose to the public fraud, let alone suspected fraud, which could later be determined to not be fraud. Per paragraph 6 of the ED, fraud is not a determination to be made, and reported, by auditors. As currently drafted, paragraph 61(b) specifically puts more responsibility on the auditor than management when disclosing such matters.
 - As it relates to paragraph 61(c), similar to paragraph 61(b), auditors should not be required to report significant deficiencies in internal control that are relevant to the prevention and detection of fraud. Auditors should report significant deficiencies to management and those charged with governance, in accordance with ISA 265, but the onus should not be on auditors to publicly report significant deficiencies. Again, this is putting the auditor in a position of disclosing more information than the requirements of management.

If the goal is to encourage management and those charged with governance to disclose more of these matters, it should be addressed through the International Accounting Standard Board.

- The standards that relate to KAMs in ISA 701 appropriately address the considerations an auditor should make in determining which matters require significant auditor attention in performing the audit. The inclusion of these fraud related KAMs included in ED-240 indicates the existing requirements in ISA 701 are not sufficient, which we do not believe to be the case. Accordingly, we do not believe supplemental KAM standards in ISA 240 are warranted.

While A168 does note that "The auditor may determine that certain risks of material misstatement due to fraud did not require significant auditor attention and, therefore, these risks would not be considered in the auditor's determination of key audit matters ", this is not clear from the main body of ISA which looks to be encouraging disclosure of fraud related KAMs.

By requiring the disclosure of fraud related KAMs without considering the nature of the fraud risk, this undermines the role of an auditor's professional judgment in determining the matters requiring significant auditor attention in performing the audit. Further, this may result in expanding the expectation gap of auditors' responsibilities related to fraud in an audit.

We acknowledge that the IAASB, in proposing this new standard, took steps to try to avoid any fraud related KAMs from being "boilerplate". We believe, however, that requiring almost all audit reports to include at least one fraud-related KAM will result in boilerplate language that is not meaningful to a reader of an audit report. Even with the language in paragraph A168 of ED- 240, we believe that auditors will be compelled by the standard to include at least one fraud-related KAM even when there are no matters that required significant auditor attention. When compelled to do so, against the judgment of the auditors and consideration of ISA 701, any communicated KAM language would be generic, especially year-over-year and particularly when management override of controls is the sole fraud-related KAM identified, since the response to this presumed risk of fraud is relatively prescriptive in the auditing standards.

The requirement in paragraph 64 to include an explicit statement to the effect that, based on the facts and circumstances of the entity and the audit, there are no key audit matters related to fraud to communicate may have detrimental consequences. For example, a reader may, instead of interpreting this statement as there being no fraud-related matters that required significant auditor attention in performing the audit, interpret the statement as there being no fraud risks in the audit or even that the auditor is opining that there are no instances of fraud in the financial statements.

For the reasons detailed above, we strongly recommend the IAASB remove the fraud-related KAM requirements and guidance from ED-240 and instead defer to the existing KAM guidance in ISA 701. Additionally, we suggest that the title in the audit report should not be updated to “Key Audit Matters Including Matters Related to Fraud, but instead should remain as “Key Audit Matters”. If the IAASB maintains that more of a fraud focus is required for KAMs, we recommend that guidance for fraud considerations when identifying KAMs be added to ISA 701 instead of ISA 240.

6. In your view, should transparency in the auditor’s report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?

(See EM, Section 1-H, paragraphs 76–77)

(See ED, paragraphs 61–64)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

Given our disagreement with the IAASB’s proposal to include in ED-240 Key Audit Matters Including Matters Related to Fraud for listed entities, as further detailed within the ‘Transparency on Fraud-Related Responsibilities and Procedures in the Auditor’s Report’ section above, we do not agree that any such requirements and guidance should be applicable to entities other than listed entities, such as PIEs.

Considering a Separate Stand-back Requirement in ED-240

7. Do you agree with the IAASB’s decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

(See EM, Section 1-J, paragraphs 107–109)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

While we agree that a separate stand-back requirement is not needed in ISA 240, we believe it would be useful to include a reminder in the application guidance around stand-backs.

Scalability

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

(See EM, Section 1-J, paragraph 113)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

Overall, we believe the ED has integrated scalability considerations as it is principles based and there are conditional requirements *however* there are numerous references to the use of forensic specialists. This is not usually a skillset available routinely to auditors in smaller audit firms and an alternate suggestion such as seeking input from a more experienced auditor could be included.

We note that the ISA for LCE will need to be updated in due course.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² ISA 220 (Revised),³ ISA 315 (Revised 2019), ISA 330,⁴ ISA 500,⁵ ISA 520,⁶ ISA 540 (Revised)⁷ and ISA 701⁸) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any):

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁵ ISA 500, *Audit Evidence*

⁶ ISA 520, *Analytical Procedures*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

As noted above, we have concerns about linkages to ISA 200, ISA 315, ISA 330, ISA 540 and ISA 701.*Other Matters*

10. Are there any other matters you would like to raise in relation to ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

We have noted the following other matters in our consideration of ED-240:

- We note that the term “fraud” is often used where it would actually be appropriate to use the term “material misstatement due to fraud” or “risk of material misstatement due to fraud” and therefore urge the IAASB to ensure the correct terminology is used throughout.
- In ED Paragraph 46, the other two overall responses from the extant standard have been moved to other sections. The remaining one on accounting policy selection feels out of place in this section due to the way it is worded i.e. *"In determining response...shall evaluate whether"*. Clearer wording might be *"The auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting, and determine overall responses to address such assessed risks of material misstatement at the financial statement level."*
- Response to risks, journal entries and other adjustments in ED Paragraph 50(c) - we would suggest adding a requirement to test post-closing entries in line with UK revisions. It is mentioned in the application paragraphs but should be a requirement to be included in selection.
- Application material A6- the lead-in paragraph has three scenarios in which misappropriation of assets can occur with examples in bullet points following this. We recommend that the examples are linked through to the three scenarios for further clarity.
- 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.
- A117- the examples set out how an auditor may alter the nature, timing and extent of procedures to respond to risks of material misstatement due to fraud however the paragraph above this does not refer to nature, timing and extent. It would be helpful to add this to the paragraph above to show the linkage. Further, the example under “Timing” is hard to follow as it initially discusses performing procedures at period end as the most effective method and then talks to performing procedures earlier in the process- it would be helpful to clarify that this is as well as the procedures at period end.
- A122- The example is hard to follow as it is not clear how cash can be deposited in a bank account that does not exist; further clarification is needed on this point.

- A178- the final bullet point does not follow from the lead in which are examples of when a KAM may not be communicated- we suggest this is moved.

Translations

11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.

Overall response: [No response](#)

Detailed comments (if any):

Effective Date

12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the Going Concern project and the Listed Entity and PIE – Track 2 project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Would this provide a sufficient period to support effective implementation of the ISA?

(See EM, Section 1-J, paragraphs 115–116)

(See ED, paragraph 16)

Overall response: [See comments on effective date below](#)

Detailed comments (if any):

We believe that an effective date that easily aligns to a calendar year end would be helpful.