

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)	Dr Rasha Kassem, Senior Lecturer in Accounting, Aston University, UK
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)	
E-mail address(es) of contact(s)	r.kassem@aston.ac.uk
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.	Academic or Academic body
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	<p>I am a senior academic with over nineteen years of experience in UK Higher Education. I am currently a Senior Lecturer at Aston University, a Fellow of the Higher Education Academy, and a Certified Management & Business Educator. My research interests and expertise are in Fraud, Forensic Accounting, Audit, and Governance. I research these areas in the private, public, and voluntary sectors. I am also a Certified Fraud Examiner, a consultant on insider fraud at Cifas, a member of the Cross-Sector Fraud Advisory Board at the Cabinet Office, and the Association of Certified Fraud Examiners (ACFE) Advisory Council.</p> <p>Please see my profile via this link Rasha Kassem — Aston Research Explorer or https://tinyurl.com/4tb83v65</p>

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): The current standard expects auditors to plan and conduct audits to provide reasonable assurance regarding the absence of material misstatements in the financial statements resulting from fraud. However, I believe that this responsibility is not sufficiently clear due to the use of terms like "materiality" and "misstatement." "Misstatement" refers to manipulations or misrepresentations that can arise from either fraud or error. To simplify matters, why can't auditors be held responsible for obtaining reasonable assurance that the financial statements, as a whole, are free from error and financial fraud? This would eliminate the ambiguity surrounding the concept of "misstatement." Some might say, misstatement does not refer to fraud and error, and that auditors do not have a responsibility for detecting either. Furthermore, materiality is often subjective and is sometimes used by auditors as a means to avoid reporting instances of fraud. It is crucial, regardless of materiality, that instances of financial fraud and error be reported to shareholders. In brief, I recommend removing the terms materiality and misstatements and simply requiring auditors to report financial fraud and error impacting the financial statements that can reasonably be identified during the normal course of external audits.

Additionally, the definition of fraud needs to be clearer and so are the types of fraud involved. For example, currently, auditors are still responsible only for two types of financial fraud, including financial reporting fraud and asset misappropriation as they can adversely impact the financial statements. However, other types of fraud, specifically corruption can have an impact on the financial statements too. In one of my publications, I have raised this issue and included various examples of how corruption can impact financial

statements. I include the link to my publication FYI

<https://tinyurl.com/rebta4ba>

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: [Disagree, with comments below](#)

Detailed comments (if any): The existing guidance on the application of professional scepticism 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 recognised as an essential competency that must be uniformly adopted to enhance auditors' critical thinking skills and professional scepticism. 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](#)

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): Enhanced guidance on fraud risk assessment is necessary for auditors, and I have outlined several suggestions below. Currently, the existing standard only takes into account two fraud risk factors: pressure or motives and opportunity, while neglecting other critical factors such as management integrity and perpetrators' capabilities. This limited scope may have a detrimental effect on the overall quality of fraud risk assessment conducted by auditors. Additionally, there is no guidance on how auditors can assess or respond to these fraud risk factors.

Based on my recent study, which involved interviews with external auditors, it became evident that motives and management integrity are crucial factors in financial fraud detection and prevention. However, these factors are often overlooked by auditors due to missing guidance in the audit standards on how to incorporate them into the audit plan. Additionally, the capabilities of potential perpetrators are equally important to opportunities and should not be disregarded in the audit standards. Therefore, to improve the effectiveness of fraud risk assessment, it is recommended that the guidance for auditors be expanded to include a more comprehensive set of fraud risk factors. This would encompass considerations of motives, management integrity, and perpetrators' capabilities. By including these additional factors, auditors can enhance their ability to identify and mitigate fraud risks more effectively, ultimately improving the overall quality of audit procedures. I include a link to my publication FYI as it includes practical guidance that could be helpful in amending the standard: <https://tinyurl.com/bdcpmzjp>

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

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: No response

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: No response

Detailed comments (if any):

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: Agree (with no further comments)

Detailed comments (if any):

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: No response

Detailed comments (if any):

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: [Click to select from dropdown menu](#)

Detailed comments (if any):

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):

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): Improvements in the communication of fraud are necessary, particularly when auditors suspect the involvement of management

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*

and those charged with governance in fraudulent activities. Currently, the standard leaves it up to the auditor's discretion to decide whether to report suspected fraud to the authorities. This lack of clear accountability and encouragement undermines the auditors' responsibility to take appropriate action. This issue is particularly significant given the challenges that compromise auditors' independence, such as concerns related to the payment of audit fees by the client and the provision of non-audit services. Additionally, the absence of legal protections for auditors against client retaliation further exacerbates the problem. In light of these circumstances, it is crucial to provide auditors with clear and stronger instructions to report fraud to the authorities in cases where management and those charged with governance are suspected perpetrators. Without explicit guidance, auditors may be reluctant to report fraud due to the reasons I have highlighted.

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: [No response](#)

Detailed comments (if any):

