

## 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)	V&A accountants-adviseurs B.V. (The Netherlands)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Albert Bosch
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	<a href="mailto:albert@vna-aa.nl">albert@vna-aa.nl</a>
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.	<a href="#">Europe</a>
	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.	<a href="#">Individuals or Other (if none of the groups above apply to you)</a>
	V&A is a service provider for audit firms in The Netherlands. We perform independent quality reviews, consultations, compliance services and training to audit firms.
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:** [Agree, with comments below](#)

### **Detailed comments (if any):**

*We agree with the point in ED 240 paragraph 6 that the auditor is responsible for finding material misstatements due to fraud (and error). We also agree that determining whether a misstatement due to fraud is material, is a matter of judgment (ED 240 paragraph 8). And that both quantitative and qualitative considerations should be involved.*

*However, in ED 240 paragraph 8 it is stated "The auditor's determination of whether a fraud or suspected fraud is material to the financial statements involves the exercise of professional judgment." The auditor does not assess fraud(s), but assesses the misstatement(s) in the financial statements due to fraud. The wording in ED 240 paragraph 8 would be better if it were as follows: "The auditor's determination of whether a misstatement due to fraud has a material impact on the financial statements involves the exercise of professional judgment."*

*The adjustment in the wording seems subtle, but in combination with the qualitative evaluation, in addition to the quantitative evaluation, it prevents the auditor from having to take into account 'qualitative fraud' up front in the planning phase of the audit and in the procedures in the audit plan. The auditor is not looking for fraud, but for misstatements due to fraud. See also our response to consultation question 10.*

### *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 \(with no further comments\)](#)

### **Detailed comments (if any):**

*Risk Identification and Assessment*

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>1</sup> 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:** [Click to select from dropdown menu](#)

**Detailed comments (if any):**

*The link to ISA 315 is clear and this link prevents inconsistencies between ISA 240 and ISA 315.*

*However, fraud has a very different characteristic than any other aspect of an audit. The financial statements are essentially nothing more than a collection of assertions made by management, such as the assertion that goodwill is worth \$ 2.5 million, that there inventory worth \$ 1.8 million and that this inventory is salable, and that there are \$ 3.0 million in bank loans. These are all assertions that normally speaking are verifiable. They can be proven. The financial statements also contain the implicit assertion that no fraud has been committed (or that there are no misstatements due to fraud). Such an assertion is never verifiable, but at most falsifiable (similar to Karl Popper's theory about scientific theories).*

*An auditor can in theory identify infinitely many fraud risks. From obtaining an understanding of the client, fraud risk factors (FRF) can be identified. The evaluation of those FRF leads to the identification of fraud risks and the rejection of fraud risks (or not identifying certain fraud risks or not distilling a fraud risk from a FRF). The latter group is often larger than the first group. From the above-mentioned idea that the absence of a (misstatement as a result of) fraud can never be proven, it is necessary to support the auditor more and better in the process of rejecting or not identifying fraud risks. This is an important part of the risk analysis, but ED 240 does not sufficiently support the auditor in this (as ISA 315 does not support the auditor in this either).*

*Practical issues related to this are, for example:*

- 1. Is audit evidence required in the planning phase to reject or to not identify a fraud risk?*
- 2. Can an auditor in the planning phase reject a fraud risk based on the design and implementation of internal control?*
- 3. Can positive information about the design and implementation of an effective control only be used together with other positive information to reject a fraud risk?*

*Reference is made to ED 240 paragraph 38 and corresponding application material. The current requirement is one dimensional. If ED 240 does not address this issue, ISA 240 will contain a major shortcoming and auditors and regulators will continue to struggle with (and disagree about) the fraud risk analysis.*

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<sup>1</sup> 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:** 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:** Agree, with comments below

**Detailed comments (if any):**

*I expect the Dutch institute for auditors (NBA) will respond to this and share what has already been implemented in The Netherlands.*

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 comments below

**Detailed comments (if any):**

*See the response to the previous question.*

*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:** [Disagree, with comments below](#)

**Detailed comments (if any):**

*The argument that existing stand-back requirements and guidance in other ISAs are already in place is in our opinion not a strong argument to refrain from including such a requirement in ED 240, because (1) it didn't prevent the addition of stand-back requirements in those other ISAs and (2) in responding to fraud risk, the confirmation bias can be very much present, as finding no (misstatements due to) fraud is the expected and most wanted outcome. In meeting these requirements, we do see a possibility for audit teams to combine several stand-back requirements into one combined stand-back. Therefore, we believe that a mandatory stand-back (as a requirement) can improve auditor's skepticism, especially regarding the topic of fraud and ideally combined with a reflection from a different point of view to avoid or reduce confirmation bias.*

*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 \(with no further comments\)](#)

**Detailed comments (if any):**

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>2</sup> ISA 220 (Revised),<sup>3</sup> ISA 315 (Revised 2019), ISA 330,<sup>4</sup> ISA 500,<sup>5</sup> ISA 520,<sup>6</sup> ISA 540 (Revised)<sup>7</sup> and ISA 701<sup>8</sup>) to promote the application of the ISAs in an integrated manner?

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

**Overall response:** [No response](#)

**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):**

*In addition to the detailed comments in question 1 and 3, we want to address an issue regarding qualitative circumstances or factors as mentioned in paragraphs 8 and 57 of ED 240 (and the corresponding application material).*

*Qualitative considerations and circumstances matter. However, stating that “an otherwise insignificant fraud perpetrated by senior management is ordinarily considered qualitatively material irrespective of the amount involved” (paragraph A11 in ED 240) creates an expectation and by doing so an implicit requirement for the auditor to detect all frauds committed by management, since these types of fraud are “ordinarily considered qualitatively material”. This means that the auditor needs to identify and assess all possible fraud risks that could involve management and accordingly needs to respond to all these fraud risks in the audit plan. That is a mission impossible for the auditor and the auditor will be a scapegoat by default in case of a fraud involving management.*

*The requirement in paragraph 57 is in the section ‘Fraud or Suspected Fraud’ (starting at paragraph 55). We advise to stipulate in paragraphs 8 and A11 of ED 240 that, once fraud is found or suspected and it appears to involve management, only then qualitative factors are to be considered.*

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

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

<sup>4</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>5</sup> ISA 500, *Audit Evidence*

<sup>6</sup> ISA 520, *Analytical Procedures*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

*We also challenge you, similar to appendices 1 to 3, to provide examples of frauds that are otherwise insignificant, but become material due to qualitative factors/circumstances. Paragraph A155 if ED does not go further than providing examples of qualitative circumstances, but that's not helping auditors sufficiently.*

*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):**