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

<table>
<thead>
<tr>
<th><strong>Your organization’s name (or your name if you are making a submission in your personal capacity)</strong></th>
<th>RSM International Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name(s) of person(s) responsible for this submission (or leave blank if the same as above)</strong></td>
<td>Marion Hannon, Global Leader, Quality &amp; Risk, RSM International</td>
</tr>
<tr>
<td><strong>Name(s) of contact(s) for this submission (or leave blank if the same as above)</strong></td>
<td></td>
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<tr>
<td><strong>E-mail address(es) of contact(s)</strong></td>
<td><a href="mailto:Marion.Hannon@rsm.global">Marion.Hannon@rsm.global</a></td>
</tr>
<tr>
<td><strong>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.</strong></td>
<td>Global</td>
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<td>If “Other,” please clarify.</td>
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<tr>
<td><strong>The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.</strong></td>
<td>Accounting Firm</td>
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<td>If “Other,” please specify.</td>
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<tr>
<td><strong>Should you choose to do so, you may include information about your organization (or yourself, as applicable).</strong></td>
<td>RSM International Limited, a worldwide network of independent firms, is the leading provider of audit, tax and consulting services to the middle market.</td>
</tr>
</tbody>
</table>
Information, if any, not already included in responding to the questions in Part B:

We appreciate the opportunity to comment on the IAASB’s exposure draft, Proposed International Standard on Auditing (ISA) 240 (Revised), The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements (ED-240). We support the IAASB’s objectives of revising extant ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements, to

(a) Clarify the auditor’s role and responsibilities relating to fraud in an audit of financial statements;
(b) Promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary;
(c) Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures; and
(d) Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with those charged with governance (TCWG) and the reporting requirements in ISA 240 and other relevant ISAs.

Language recommended for deletion is struck through. Language recommended for addition is underlined.
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 no further comments)

**Detailed comments (if any):**

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

13. As stated in ISA 220,¹ professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level.

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¹ ISA 220 (Revised), paragraph 7
In addition, paragraph 23 of the EM states that the IAASB removed the last part of the requirement of paragraph 13 of extant ISA 240, which states, ‘...notwithstanding the auditor’s past experience of the honesty and integrity of the entity's management and those charged with governance’, because it believes that referring to the auditor’s preconceptions, based on past experience, about the honesty and integrity of management and TCWG may serve to undermine the exercise of professional skepticism. We consider past experience to be an inherent factor that auditors should be conscious of in order to appropriately exercise professional skepticism, including past experience that would provide both confirming and disconfirming evidence related to the honesty and integrity of management and TCWG. By not including it, we believe auditors are more likely to have an unconscious bias and may not realise when they are taking into account their past experiences of interacting with management or excluding past experiences of interacting with management that may be relevant to the determination of risks of material misstatement.

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

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

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**Risk Identification and Assessment**

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019) 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:**  Agree, with comments below

**Detailed comments (if any):**

We believe the wording in paragraph A99 of ED-240 is not consistent with the guidance included in the IAASB’s *First Time Implementation Guide for ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement*. Paragraph A99 of ED-240 states that the understanding of the controls over journal entries in accordance with paragraph 26(a)(ii) of ISA 315 (Revised 2019) is intended to focus on controls addressing risks of material misstatement at the assertion level whether due to fraud or error. However, paragraph 63 of the implementation guide indicates the focus of paragraph 26(a)(ii) of ISA 315 (Revised 2019) is on controls that could be susceptible to unauthorized or inappropriate intervention or manipulation. Whilst the guidance in paragraph 26(a)(ii) of ISA 315 (Revised) may not be clear (and may not be within the scope of this standard), paragraph A99 of ED-240 seems to further complicate the intended meaning of the requirement in paragraph 26(a)(ii) of ISA 315 (Revised 2019).

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2 ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*
We, therefore, suggest the following revision to paragraph A99 of ED-240 to be more specific and consistent with language:

A99. ISA 315 (Revised 2019) requires the auditor to obtain an understanding of controls over journal entries as well as to evaluate their design and determine their implementation as part of understanding the entity’s system of internal control. This understanding focuses on the controls over journal entries that address risks of material misstatement at the assertion level, and that could be susceptible to unauthorized or inappropriate intervention or manipulation whether due to fraud or error. Paragraphs 49–50 of this ISA require the auditor to test the appropriateness of journal entries and is specifically focused on the risks of material misstatement due to fraud (see Appendix 4 for additional considerations when testing journal entries).

**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:** Neither agree/disagree, but see comments below

**Detailed comments (if any):**

ED-240 appears to effectively apply a fraud lens to the requirements in ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, and we support using ISA 701 as a base to determine key audit matters (KAMs) related to fraud. We also acknowledge that, currently, these requirements would be required for listed entities.

Per ISA 701, a KAM is defined as:

Those matters that, in the auditor’s professional judgment [sic], were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. [emphasis added]
Consistent with paragraph A29 of extant ISA 701, paragraph A170 of ED-240 emphasises that one of the considerations that may be relevant in determining the relative significance of a matter that required significant auditor attention and whether such a matter is a key audit matter is the importance of the matter to intended users’ understanding of the financial statements as a whole. However, this paragraph goes on to indicate that there would ordinarily be at least one KAM related to fraud, as users of financial statements have highlighted their interest in matters related to fraud. The consequential amendment to paragraph A21 of ISA 701, also seems to suggest that there would ordinarily be at least one KAM related to fraud.

This would appear to increase the weight that auditors should place on the importance of the matter to intended users’ understanding of the financial statements as a whole and could be interpreted as the auditors needing to determine if a matter is a KAM related to fraud from the users’ perspective. However, as noted above, the definition of a KAM states that the auditor’s professional judgement should determine if a matter is a KAM, including those related to fraud, and not necessarily from the users’ perspective. We believe this is a critical difference and, therefore, may add to the confusion of users about what a KAM actually is.

Although the importance of the matter to intended users’ understanding of the financial statements as a whole is a consideration that may be relevant, it should not always be a primary factor as suggested by paragraph A170 of ED-240. We believe auditors should continue be able to use professional judgement in making the determination if there is a KAM related to fraud. Because management override of controls is a risk of material misstatement due to fraud in accordance with paragraph 41 of ED-240, and there is a presumption of a risk of material misstatement due to fraud in revenue recognition in accordance with paragraph 40 of ED-240, we are concerned that auditors may use one of these risks as a KAM related to fraud even if it does not meet the criteria in paragraphs 61 and 62 of ED-240. This may diminish the significance of KAMs related to fraud and, thus, add no value to the auditor’s report.

Without agreeing with paragraph 64 of ED-240, we acknowledge that it requires the auditor to include a statement in the auditor’s report when there are no KAMs related to fraud to communicate. Thus, the requirement suggests that there may be cases where the auditor, exercising its professional judgment, determines that none of the matters related to fraud are KAMs. Accordingly, we recommend the IAASB to clarify this point and amend paragraph A170 of ED-240 and the consequential amendment in paragraph A21 of ISA 701. In addition to the concerns noted above, we do not agree with paragraph 64 of ED-240. Including in the auditor’s report a general statement that there were no KAMs related to fraud contradicts the purpose of communicating KAMs (i.e., providing additional information to intended users to assist them in understanding those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements). If there is not an explicit KAM related to fraud, we believe the auditor should not make any statement in that respect. We also believe that such a statement could have unintended consequences on an auditor’s credibility and their professional liability if a fraud is later identified and is related to a period where there is a statement in the auditor’s report that there were no KAMs related to fraud to communicate. Rather than requiring the auditor to include a statement in the auditor’s report when no KAMs related to fraud were identified to communicate, we recommend the IAASB consider adding application material with factors and guidance to help the auditor determine if a KAM related to fraud would be required.
Furthermore, we believe the language in paragraph A173 of ED-240 should be strengthened to avoid generic or standardized language in KAMs. We, therefore, suggest the following revision:

A173. Relating a matter directly to the specific circumstances of the entity may help to minimize the potential that such descriptions become overly standardized and less useful over time. For example, revenue recognition or management override of controls may be regularly determined as key audit matters related to fraud. In describing why the auditor considered the matter to be one of most significance in the audit, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) so as to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over multiple periods. Similarly, in describing how the key audit matter related to fraud was addressed in the audit, it may be useful for the auditor to highlight matters directly related to the specific circumstances of the entity, while avoiding generic or standardized language.

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):

We note that the public interest factors that drive this requirement include enhancing the communicative value of the auditor’s report by providing greater transparency about the audit that was performed and to increase intended user confidence in the audit and the audited financial statements.

However, as noted in our recent response to the exposure draft of proposed narrow scope amendments to ISQMs, ISAs and ISRE 2400 (Revised), we have reservations about the need to extend the extant differential requirements for communicating KAMs, including those related to fraud, that currently only apply to listed entities, to also be applicable to audits of financial statements of entities other than listed entities, such as public interest entities (PIEs), in particular with respect to entities where the financial statements may not be publicly available (e.g., owner-managed entities).

We appreciate that communicating KAMs, including those related to fraud, in the auditor’s report may be requested or required by certain users of the financial statements for entities other than listed entities, such as their respective regulators, their banks under certain financing arrangements or potential investors. In these cases, paragraph 31 of extant ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and paragraph 5 of extant ISA 701 already indicate that the auditor may communicate KAMs in the auditor’s report when required by law or regulation or when the auditor otherwise decides to (i.e., at the option of the auditor).
We consider that in instances where KAMs, including those related to fraud, may not be necessary, such as where the financial statements may not be publicly available (e.g., owner-managed entities) and the financial statements are not required to be provided to other stakeholders or those stakeholders do not require KAMs, including those related to fraud, to be reported in the auditor’s report, the IAASB should continue to allow KAMs, including those related to fraud, to be optional.

For the reasons stated above, we believe that the existing scope requirements for KAMs, including those related to fraud, in ISA 700 (Revised) and ISA 701 are appropriate and recommend the IAASB not to modify them.

**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):**

We agree with IAASB’s view that a stand-back requirement is not needed in ED-240. ED-240 generally refers to and adds a fraud lens to relevant ISAs. We consider that the existing stand-back requirements and guidance in other ISAs are sufficient as they also apply to audit evidence obtained from audit procedures performed in accordance with ED-240.

In addition, we believe paragraph 21 of ED-240, which states that ‘the auditor shall remain alert throughout the audit for information that is indicative of fraud or suspected fraud’, is an overarching requirement to consider fraud throughout the audit, and therefore, accomplishes a similar objective as a stand-back requirement.

**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, 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?

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

Overall response: Agree, with comments below

Detailed comments (if any):

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.

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):

Engagement Resources

Paragraphs A34 and A35 of ED-240, including the examples therein, appear to indicate that the use of a specialist is required in applying paragraph 22 of ED-240, which may not be scalable to firms that do not have a specialist readily available. To address this, we suggest the following revisions are made to the body of these two paragraphs:

A34. The nature, timing, and extent of the involvement, if any, of individuals with specialized skills or knowledge, such as forensic and other experts, or the involvement of more experienced individuals, may vary based on the nature and circumstances of the audit engagement.

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3 ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
4 ISA 220 (Revised), Quality Management for an Audit of Financial Statements
5 ISA 330, The Auditor's Responses to Assessed Risks
6 ISA 500, Audit Evidence
7 ISA 520, Analytical Procedures
8 ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures
9 ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report
A35. Forensic skills or other relevant experience, in the context of an audit of financial statements, may combine accounting, auditing and investigative skills. Such skills may be applied in an investigation and evaluation of an entity’s accounting records to obtain possible evidence of fraudulent financial reporting or misappropriation of assets, or in performing audit procedures. The use of forensic skills may also assist the auditor in evaluating whether there is management override of controls or intentional management bias in financial reporting.

We also believe there should be more guidance on determining when the nature and circumstances of the audit engagement may warrant the use of a specialist or when the use of a specialist may not be necessary and someone with relevant experience may be appropriate. Including examples of the nature and circumstances of the audit engagement when a specialist may not be needed would be useful to auditors when making such determination.

Presumption of the Risks of Material Misstatement Due to Fraud in Revenue Recognition

Paragraph A109 of ED-240 provides examples of conditions or events relating to revenues that may give rise to fraud risk factors that may affect the auditor’s assessment of the risks of material misstatement due to fraud in revenue recognition. We believe that it may be more helpful to provide more specific examples of conditions or events relating to the risks of material misstatement due to fraud in revenue recognition and therefore recommend the following revisions to paragraph A109 of ED-240:

A109. Understanding the entity’s business and its environment, the applicable financial reporting framework and the entity’s system of internal control helps the auditor understand the nature of the revenue transactions, the applicable revenue recognition criteria and the appropriate industry practice related to revenue. This understanding may assist the auditor in identifying events or conditions (see examples below) relating to the types of revenue, revenue transactions, or relevant assertions, that could give rise to fraud risk factors.

Examples:

- When there are changes in the financial reporting framework relating to revenue recognition, which may present an opportunity for management to commit fraudulent financial reporting or bring to light the lack of (or significant deficiency in) controls for managing changes in the financial reporting framework.
- When there is a high degree of returns or credit memos particularly if issued after the period end.
- When there are issues with accounts receivables, for example, significant delays, disputes, or lack of payment.
- When an entity’s accounting principles for revenue recognition are more aggressive than, or inconsistent with, its industry peers.
- When the entity operates in emerging industries for which there may be a lack of authoritative guidance or benchmarks for comparison.
- When revenue recognition involves complex accounting estimates or subjective inputs to accounting estimates.
- When revenue recognition is based on complex contractual arrangements with a high degree of estimation uncertainty, for example, construction-type or production-type contracts and multiple-element arrangements.
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- When contradictory evidence is obtained from performing risk assessment procedures or throughout the audit process.
- When the entity has a history of significant audit adjustments due to the improper recognition of revenue (e.g., premature recognition of revenue).
- When circumstances indicate the recording of fictitious revenues, such as delays in the availability or lack of audit evidence (e.g., invoices, purchase order), incentive for management to maximize compensation linked to the entity’s financial performance or undue pressure to manipulate the entity’s financial performance due to pressure to meet investor, market, or internal expectations.
- When the timing of revenue recognition is significantly or unexpectedly weighted toward the end of the reporting period.
- When circumstances indicate backdating or manipulation of agreements or other documents to achieve a desired accounting result.
- When circumstances indicate the omission of required disclosures or presentation of incomplete or inaccurate disclosures regarding revenue, which may mislead financial statement users or otherwise obscure material facts for example, to manipulate the entity’s financial performance due to pressures to meet investor / market expectations, or due to the incentive for management to maximize compensation linked to the entity’s financial performance.

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 agree with the alignment of the effective date with the listed entity and PIE – track 2 and going concern projects, given these projects are also considering possible revisions to the auditor’s report to enhance transparency. We believe it is in the public interest to make all the revisions to the auditor’s report at the same time, to assist auditors with a consistent implementation of the changes as well as providing clarity to users in their understanding of the changes.