

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)	Financial Reporting Council
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Mark Babington
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	m.babington@frc.org.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.	Regulator or assurance oversight authority
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	As the UK's Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g., where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

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:

We are generally very supportive of the proposed revisions to enhance ISA 240. However, we believe some further enhancements should be made as set out in our responses 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 are very supportive of the steps proposed to clarify the auditor's responsibilities relating to fraud. Currently there is ongoing concern that auditors are not doing enough to detect material fraud and that this may, at least in part, be due to a lack of clarity as to their obligation to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. We agree that while the risk of not detecting a material misstatement resulting from fraud may be higher than the risk of detecting one resulting from error, that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to fraud. It is helpful to have a statement of that in the ISA. The inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence. The greater the risks of material misstatement the auditor believes exists, the more persuasive the audit evidence required by the auditor.

There is some overlap between the description of the responsibilities of the auditor as set out in paragraph 2 and the objectives of the auditor as set out in paragraph 17. It would be helpful if they were even more closely aligned and the objectives supplemented to clarify and emphasise they include to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. This would be consistent with the overall objectives of the auditor set out in ISA 200 which include to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error.

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 proposed revisions that reinforce the exercise of professional scepticism. We recommend they are further enhanced by amending the requirement in paragraph 30 so that the auditor also investigates the reasons if responses to inquiries of management, those charged with governance or others within the entity appear implausible. Currently implausible responses are included in Appendix 3 as an example of a circumstance that may be indicative of fraud – we believe it is a fundamental matter that should be covered in the requirements.

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: [Agree, with comments below](#)

Detailed comments (if any):

Engagement team discussion

Number of discussions

The auditor's risk identification and assessment process should be iterative and dynamic. The engagement team discussion is a key element of the risk identification and assessment, particularly in relation to fraud risks. However, the presentation of the requirement, in both ISA 315 (Revised 2019) and ED 240 could give the impression that it is a single point in time event. To reinforce the iterative process and ensure appropriate attention to fraud risk factors that might come to light after the initial discussion, we recommend that the engagement partner should be required to determine whether further discussion(s) among members of the engagement team be held at later stages in the audit to consider fraud risk factors that have been identified during the course of the audit and the implications for the audit. Such a requirement could be included in the engagement performance section. A38 would better support such a requirement rather than paragraph 24 to which it is currently linked.

Circumstances where it may be beneficial to have further discussion(s) among the engagement team at later stages in the audit may include, for example, when the auditor's evaluation of audit evidence has provided further insight about the risks of material misstatement due to fraud or members of the audit team have identified:

- Fraud risk factors that were not covered in the original discussion.
- Actual or suspected fraud.

Considerations in group audits

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

Paragraph A8 identifies that audit procedures performed to comply with other ISAs may also bring instances of fraud or suspected fraud to the auditor's attention including, for example, those performed in accordance with ISA 600 (Revised). There is a footnote link to the requirement in ISA 600 (Revised) that specifies the matters to be communicated in relation to Identified significant risks of material misstatement of the group financial statements, including those due to fraud or error. We believe those risks should be covered as part of the engagement team discussion but ED 240 is silent in that context. Accordingly, we recommend that, for a group audit, the discussion among the group engagement team should be required to include matters to discuss with the component auditor of a significant component about risks of material misstatement due to fraud that are relevant to that component. A cross reference to paragraph A92 of ISA 600 would be helpful as that identifies fraud related considerations that could be covered in the discussion by the group engagement partner and other key engagement team members.

Discussion with those charged with governance

We recommend that as part of obtaining an understanding and making inquiries of those charged with governance, the auditor is required to discuss with those charged with governance the risks of fraud in the entity, including those that are specific to the entity's business sector. A discussion between the auditor and those charged with governance about the risks of fraud in the entity, including those specific to the entity's business sector, assists the auditor in identifying and assessing the risks of material misstatement of the financial statements due to fraud. The discussion may also enhance the understanding of those charged with governance of fraud risks specific to the entity and assist them in exercising oversight of management's process for identifying and responding to the risks of fraud in the entity.

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 proposed requirements where fraud is a 'key audit matter' and the links to ISA 701. However, there should also be a link to paragraph 13 of ISA 701, including to be clearer that the description of the key audit matter shall address why the matter was considered to be one of most significance in the audit and how the matter was addressed in the audit. The application material in paragraph A174 relates in part to paragraph 13 of ISA 701, although there is no explicit cross reference, but we are concerned that, as written in the ED, it could facilitate 'boilerplate' descriptions by suggesting that, 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; and, 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. To address this, the application material should be amended to clarify that the description is not intended to be 'boilerplate', but should be specific to the circumstances of the audited entity and take account of how the auditor planned and performed procedures to address the identification and assessment of the risks of material misstatement.

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):

We support transparency in the auditor's report about matters related to fraud introduced in ED-240 being applicable to audits of financial statements of PIEs. Having regard to the definition of PIEs in the IESBA Code and the IAASB's proposal to closely align with that and to expand the applicability of ISA 701 to audits of financial statements of PIEs [which we support], we believe it is in the public interest for stakeholders with an interest in all PIEs to have the same transparency as those interested in listed entities.

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):

We included a stand-back requirement as an addition to ISA (UK) 240 when we revised it in 2021. While we understand there may be view that this is unnecessary repetition of requirements in other standards, we believe there are some matters for which it is beneficial to do so. We believe it is particularly important to emphasise the need to give specific attention to fraud when applying the stand-back and overall evaluation of the sufficiency and appropriateness of audit evidence obtained. We disagree that the new overarching requirement in paragraph 21 of ED-240, for the auditor to remain alert throughout the audit engagement for information that is indicative of fraud or suspected fraud “provides a robust overall check for responses to the assessed risks of material misstatement due to fraud.”

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: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

We agree that IAASB has integrated scalability considerations in ED-240. However, including examples in the application material to clearly demonstrate scalability would be very beneficial, particularly for SME audits.

The EM, paragraph 57, includes the statement “For example, after the auditor obtains an understanding of the fraud or suspected fraud in paragraph 55 and the engagement partner makes the required determinations in paragraph 56, the rest of the fraud or suspected fraud requirements may not be applicable depending on the facts and circumstances of the audit and the nature of the fraud.” Giving some examples in the application material of different approaches in different circumstances would be helpful.

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?

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*

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

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

Detailed comments (if any):

See our response to Q5 where we explain that there should also be a link to paragraph 13 of 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 agree with the new requirement in paragraph 43 that “The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management’s assertions or towards excluding audit evidence that may contradict such assertions.” However, we believe it would be helpful for clarity if supporting application material were also added, matching that for the equivalent requirement in ISA 540, that “Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.”

In paragraph 4, we recommend amending the second sentence to “... whether the underlying action that results in the misstatement of the financial statements is intentional and involves deception or unintentional.” The inclusion of the reference to “deception” better aligns the explanation with the definition of fraud that is given in paragraph 18(a).

We suggest adding in paragraph A26 “Copy documents presented rather than originals” in the examples of conditions that, if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor. A company may have reasons for presenting a copy document rather than the original, such as the original having been inadvertently destroyed or misplaced, but that should be a reason for the auditor to be alert to the possibility that the copy is not an authentic representation of the original.

We suggest amending paragraph A50 to “The exchange of ideas may serve to inform the auditor’s initial perspective about the tone at the top. The conversation may include a discussion of the actions and behaviors of management and those charged with governance, including how they promote a culture of honesty and integrity; what policies they have to facilitate and encourage reporting of wrongdoing; how they respond to any such reports; and whether there are clear and consistent actions and communications about integrity and ethical behavior at all levels within the entity.

We suggest adding in paragraph A57 as a further example of a factor that may generally constrain improper conduct by management “Appropriate segregation of responsibilities to reduce the opportunities for a person to both perpetrate and conceal fraud.”

In the application material on the control environment (paragraphs A68 – AA70) it would be helpful to support professional scepticism by adding a statement that “Although the control environment may provide an appropriate foundation for the system of internal control and may help reduce the risk of fraud, an appropriate control environment is not necessarily an effective deterrent to fraud.”

We suggest adding in paragraph A90 as a further example of others within the entity to whom the auditor may direct inquiries about the existence or suspicion of fraud “Employees responsible for the maintenance of IT systems or monitoring system logs for unusual or unauthorized activity.”

In relation to paragraphs A159 and A160, it would be helpful to add that “withdrawal from the engagement by the auditor is a step of last resort. It is normally preferable for the auditor to remain in office to fulfil the auditor’s statutory duties, particularly where minority interests are involved. However, there may be circumstances where there may be no alternative to withdrawal where that is permitted.”

Conforming and consequential amendments to other ISAs

ISA 450

We disagree that the proposed new 5A should require in effect that for every identified misstatement the auditor shall “determine” whether the misstatement is indicative of fraud. That risks imposing a disproportionate work effort, especially when there is no regard to materiality. This is an instance where “evaluate” would be more appropriate.

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 the proposals for the effective date. Permitting and encouraging early adoption is particularly important.