

## 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)	Eumedion
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Rients Abma
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Martijn Bos
E-mail address(es) of contact(s)	martijn.bos@eumedion.nl
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="#">Investors and Analysts (Preparer or users of financial information)</a>
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	<p>Eumedion represents the interests of institutional investors in the field of corporate governance and sustainability. All institutional investors that hold shares in Dutch listed companies can become a member of Eumedion. Eumedion is committed to promote good corporate governance and sustainability policies at Dutch listed companies and to promote engaged and responsible shareholdership by its members. Its 54 members manage in aggregate approximately EUR 8 trillion of capital.</p> <p>Eumedion wants to achieve this by:</p> <ul style="list-style-type: none"> <li>- committing itself to the conservation of an attractive investment climate and an adequate protection of the position of shareholders. Eumedion does this by consulting with relevant policy makers and influencing relevant legislation and regulation;</li> <li>- supporting its members to act as engaged and responsible shareholders. Eumedion does this</li> </ul>

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	<p>among other things by facilitating dialogues between its members and Dutch listed companies;</p> <ul style="list-style-type: none"><li>- being a leading research and knowledge center for its members in the field of corporate governance and sustainability.</li></ul>
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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 that ED-240 contains substantial improvements and indeed brings more clarity to the auditor's responsibilities.

There is one important topic where ED-240 falls short of Eumedion's expectations. The Explanatory Memorandum (EM) explains why the IAASB choose to address the themes of 'corruption, bribery, and money laundering' not in ED-240, but in standard 250: *"In its deliberations, the IAASB agreed that the definition of fraud should not be expanded to include these terms considering how they may have varying definitions or interpretations across jurisdictions and how introducing these terms into the proposed standard may significantly increase the scope of an audit of financial statements."*

Eumedion has attested before that corruption (in the context of this response synonymous to bribery) is more than just a crime, it undermines the business and investment climate of countries. It rewards and strengthens those individuals that unlawfully benefit and can even initiate the decline of states, or hinder the path towards a healthy society.

Corruption also meets the ED-240's proposed definition of fraud: *"An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage"*. Investors are deceived by corruption: the reported revenues, or costs, or margins were not generated due the strength of the product offering, but through giving (or receiving) unjust or illegal advantages to key decision makers, while taking on board unreported financial and reputational risks of detection. The notion that including corruption 'may significantly increase the scope of an audit of financial statements' bears in our view no fundamental validity and is not a factor that the IAASB should shy away from.

We urge the IAASB to take notice of the Royal Netherlands Institute of Chartered Accountants (NBA) Draft Practice Note 1137 on corruption ('NBA's Draft Practice Note') (<https://www.nba.nl/siteassets/wet--en-regelgeving/consultaties-en-projecten/2023/nba-handreiking-1137/consultatieversie-hr-1137---20230814.pdf>). It defines corruption as fraud rather than merely an instance of non-compliance with laws and regulations. The NBA's Draft Practice Note also explicitly points out the gatekeeper role that external auditors have concerning corruption, including a hyperlink to a relevant disciplinary rulings against auditors.

The NBA's Draft Practice Note recognises the negative impact of corruption on society and emphasises that corruption is not only occurring in emerging economies but also in mature ones. Companies that

knowingly undermine the healthy functioning of society through corruption can expect to lose access to capital from long-term institutional investors, regardless of the extent of the corruption.

Additionally, the financial liabilities and the reputational risks of corruption can be significant; so significant that they can endanger the continuity of a business. For long-term institutional investors, there is no financial gain from corruption, even if it remains unnoticed: the destructive nature of corruption also negatively impacts many other companies in which institutional investors invest. Eumedion views corruption as an aggravated form of fraud and a destructive form of short-termism by companies that is at odds with sustainable, long-term value creation. Eumedion therefore advocates a zero-tolerance approach by management and the supervisory board of companies towards corruption, regardless of its amounts, and we emphasize the importance of transparent reporting on this. The primary responsibility for external transparency lies with management. It is their responsibility, in consultation with and under the supervision of the audit committee, to contextualise adequate reporting on corruption towards shareholders.

Eumedion believes that incidents and the actions of the management related to them should be reported diligently in the company's reports, and insight should be provided into the nature and quantity of suspicions and indications of corruption. Such information can be an essential indication that the management is (not) sufficiently alert to ensure that the anti-corruption policy is effective. Where management's reporting in this area falls short, we see a core task for the external auditor to clarify this in the auditor's report.

Corruption is often a hidden cost item; its discovery and possible reclassification should not necessarily lead to a different net result in the past financial year. Some external auditors might conclude that therefore only the plausible prospect of a fine or the loss of an ongoing contract may lead to a material deviation. From an investor's perspective, indications that the anti-corruption policy does not seem to have been effective are material in themselves, and the company, and if not the company, the external auditor should report on this.

Considering all these factors, Eumedion sees a justified need for the IAASB to increase the scope of 240 to include corruption. The indeed material step-up in the auditor's assessment of adequate transparency by corporates would in itself help safeguard adequate detection of corruption by corporates, adequate transparency on corruption incidents by corporates, and their own fair assessment of the effectiveness of their anti-corruption measures. The impact of such a decision by the IAASB will be positive and material and would not be limited to fewer investors depending on fraudulently achieved corporate results, but is also in the interest of fair competition and the well-functioning of societies.

We suggest that Standard 240 also specifically addresses the situation where the external auditor is the first or the only potentially plausible party to identify the risk or suspicion of corruption. In such a situation, it is not unthinkable that the corruption could continue for a long time if the external auditor would not intervene. The external auditor might conclude that the chance of a material deviation is limited as long as the crime remains hidden, i.e. if the auditor were to remain silent. The IAASB should clarify that the responsibilities of the auditor to serve the public interests should in such cases prevail over the interest of management, the company, or those charged with governance.

We consider proposed A20 as rather incomplete: "While the auditor may identify or suspect corruption, bribery, or money laundering, as with fraud, the auditor does not make legal determinations on whether such acts have actually occurred.": it omits to require auditors to highlight in the auditor's report cases of suspected corruption, if management itself fails to adequately do so.

Please find Eumedion's unabbreviated comments on the NBA's Draft Practice Note in English here: <https://en.eumedion.nl/clientdata/217/media/clientimages/Comments-on-NBA-draft-Practice-Note-Auditor-and-Corruption.pdf?v=231011155942>

*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:** Agree (with no further comments)

**Detailed comments (if any):**

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

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

**Detailed comments (if any):**

The EM reads: “On the other hand, the IAASB noted that an additional stand-back requirement in ED-240 may not be needed considering that existing stand-back requirements and guidance in other ISAs (i.e., ISA 220 (Revised)<sup>23</sup>, ISA 315 (Revised 2019),<sup>24</sup> ISA 330,<sup>25</sup> and ISA 540 (Revised)<sup>26</sup>) also apply to audit evidence obtained from audit procedures performed in accordance with ED-240. The IAASB is also mindful of the concern raised by stakeholders about the proliferation of stand-back requirements in the ISAs.”

By only omitting the stand-back requirement in this particular standard and keeping the ones in other standards, the IAASB provides an unintended signal that there is less of a need for this requirement in the context of fraud. We suggest that the stand-back requirement is included in the final standard. Only after the IAASB has addressed how stand-back requirements are considered across all standards, and it will be evident that the stand-back requirement is applicable in the context of 240 Fraud, it becomes opportune to remove references to the stand-back requirement in this and other individual standards.

*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):**

*These requirements are rather difficult to judge from an investor perspective.*

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

**Detailed comments (if any):**

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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 find it rather difficult to judge whether ED-240 has appropriate linkages to other ISAs, given our investor perspective.*

*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:** [No response](#)

**Detailed comments (if any):**

*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):**

*There might be a slight delay of for example two or three months in the final pronouncement. Committing to an effective date 18 months after approval of the final pronouncement, might risk the need to shift the effective date by a complete year. We suggest that the IAASB instead commits to an effective date per the 31<sup>st</sup> of December 2026.*