

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) | Institute of Singapore Chartered Accountants (ISCA) |
| Name(s) of person(s) responsible for this submission (or leave blank if the same as above) | Kang Wai Geat Terence Lam Wang Zhumei |
| Name(s) of contact(s) for this submission (or leave blank if the same as above) | |
| E-mail address(es) of contact(s) | waigeat.kang@isca.org.sg terence.lam@isca.org.sg zhumei.wang@isca.org.sg |
| 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. | Asia Pacific |
| | 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. | Member body and other professional organization |
| | If "Other," please specify. |
| Should you choose to do so, you may include information about your organization (or yourself, as applicable). | ISCA is also the standard-setter of Singapore's auditing and assurance standards. |

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):

We are of the view that certain parts of ED-240 on the auditor's responsibilities relating to fraud are not sufficiently clear and may lead towards a widening of expectation gap over the auditor's responsibilities, as described below.

1. Decoupling inherent limitations from auditor's responsibilities

We disagree with the revision to decouple the inherent limitations from the auditor's responsibilities. Inherent limitations delineate the boundaries within which auditors operate. Such decoupling would potentially widen the expectation gap by not clearly communicating inherent limitations in an audit.

Users of financial statements may not be fully aware that the objective of a financial statements audit is to address the risk of material misstatement due to fraud, rather than actively seeking to detect fraud. Some may even perceive that the auditor is required to carry out forensic procedures as part of financial statement audits. Not all users understand that a forensic engagement is different from an audit due to the specialised skills and high costs involved.

Moreover, media coverage on the potential of technology and artificial intelligence may have raised expectations that auditors should be able to achieve 100% coverage and detect fraud.

These misconceptions make the communication of inherent limitations in an audit even more important. Instead of reducing such communication, we believe that there needs to be increased communication of such limitations to manage the expectations of users of financial statements. It is important, in our view, for all stakeholders to recognise that enhancements to the ISAs alone are not likely to have a substantial enough effect on the expectation gap between what users expect from the financial statements audit and the reality of what an audit is.

Hence, while we appreciate the expanded paragraphs on inherent limitations in paragraphs 9 to 11 which provide clarity on such limitations, we recommend retaining the description of inherent limitations within paragraph 2 on the responsibilities of the auditor. In addition, we suggest moving the application material in paragraph A12 to the "Inherent Limitations" section (in the body of the standard), as it highlights the factors that affect the auditor's ability to detect fraud.

2. Describing responsibilities of management and those charged with governance before responsibilities of the auditor

Notwithstanding that this is an auditing standard, given that management and those charged with governance have primary responsibility for the prevention and detection of fraud, their responsibilities should be described first. Hence, our preference would be to retain the original sequence of the description of responsibilities. This would be consistent with the approach taken in other ISAs, such as ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* and ISA 570 (Revised), *Going Concern*.

3. Third-party fraud

Paragraph A16 may be read to imply that the auditor is expected to design and perform procedures specifically to detect third-party fraud. If it is not the intention of IAASB to expand the role of the auditor in relation to third-party fraud, including third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements, this should be clarified in the standard. Conversely, if the auditor is required to consider the impact of third party fraud in the audit, more guidance or parameters should be provided for the auditor to determine when the actions by third parties would be considered fraud or suspected fraud for the requirements in paragraph 55 to apply.

In addition to paragraph A16, more guidance is needed on the assessment of how third-party fraud would affect the audit strategy:

- How third-party fraud involving collusion with management (especially those with significant roles in internal controls) would affect the auditor's assessment on whether to rely on internal controls. For example, if the third-party fraud is confined to the procurement function, would the auditor be able to rely on internal controls over other functions?
- To what extent should the auditor consider whether the entity has implemented related controls to safeguard their assets when third-party fraud has been committed before the auditor can rely on internal controls.

4. Application material

We appreciate the application material added, which we believe would help drive consistency in applying the requirements of the standard.

Guidance added under paragraph A11 on when an identified misstatement due to fraud may be "qualitatively material" is useful. We agree that fraud perpetrated by management should be viewed more critically. In this regard, more clarity on the potential implications of such "qualitatively material" misstatements due to fraud involving management on the audit opinion and key audit matter disclosures are needed.

One challenge that auditors face is that it may be difficult to determine whether an act is "intentional" for it to be considered as fraud in the first place. Hence, it would be useful for the application material to provide more guidance on considerations in determining whether "intent" is present, with linkage to fraud risk factors.

Another area where more guidance would be useful is under paragraph A146 on the areas that an auditor's expert, such as a forensics expert, may assist the auditor with, such as in evaluating whether the entity's investigation process is appropriate, and their remediation measures effective, as well as whether significant control deficiencies exist.

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):

1. Authenticity of records and documents

While ED-240 as a whole reinforces the exercise of professional skepticism, we disagree with the removal of certain statements originally included in extant ISA 240.

We suggest that IAASB retain the wording “*notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance*” under paragraph 19 or in the related application material under paragraphs A24–A25. Similarly, we suggest retaining the wording “*setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity*” under paragraph 29. We believe that these statements are helpful in reminding the auditor to set aside any potential biases resulting from past experience with management and those charged with governance.

We also suggest retaining the lead-in statement “*Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine*” under paragraph 20. Such removal causes confusion as to the auditor’s responsibility in relation to authenticity of documents and may create the impression that the auditor is required to ensure that all documents and records are authentic, which would be excessive and not practicable. We believe that it is important to retain the lead-in sentence to emphasise that further procedures to check authenticity are only required for situations where there are indicators that records and documents are not genuine.

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):

1. Overall enhancements to risk identification and assessment

It appears that the requirements may be scaling towards an active attempt to detect fraud in the process of the audit. We believe that this should not be the focus of an audit.

The standard could make clear that the rigour and extent of risk assessment procedures performed in relation to fraud should be commensurate to the propensity of fraud occurring based on the auditor’s understanding of the business and operating environment of the entity (i.e. more rigorous risk assessment procedures would be needed if the auditor picks up irregularities when understanding the business or

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

operating environment of the entity). This would help avoid a situation where it is perceived that the auditor is required to carry out extensive procedures to detect fraud regardless of risk levels.

2. Areas where more guidance is needed

We appreciate the application material added under Appendix 4 in relation to considerations over journal entries. It would be useful for the guidance to clarify how test of controls over journal entries would affect the nature and extent of substantive procedures in this area, considering that the criteria for selection of journal entries to test is based on criteria that denote higher risk.

Guidance on other considerations over unusual large transactions and key management estimates, which are areas susceptible to fraud, would also be helpful.

3. Role of culture

A strong ethical corporate culture can serve as an effective fraud deterrent. Notwithstanding that assessing culture could be challenging due to a certain degree of subjectivity involved, we are supportive of the enhancements in ED-240 that incorporate aspects of corporate culture that are observable in the auditor's risk assessment.

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 comments below](#)

Detailed comments (if any):

1. Determining the effects of fraud on the audit

This would be challenging in situations where fraud is perpetuated by senior management or personnel who play a significant role in internal control. More guidance is needed on assessing the effects in such situations, for example, whether a controls reliance strategy is still appropriate.

In addition, while paragraph 55 requires the auditor to evaluate management's process and remedial actions in response to the fraud or suspected fraud, where applicable, it would be difficult for the auditor to determine the effects on the audit if these are not in place. More guidance on how the auditor's assessment would be affected in the absence of management's process and actions would be helpful.

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):

1. Requirements over reporting of KAMs related to fraud

(a) Communicating KAMs relating to fraud

The purpose of communicating key audit matters (KAMs) is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. We are concerned with the requirement under paragraph 63 to specifically identify fraud related KAMs as we believe that this may lead to a perception that the auditor has placed greater emphasis on and directed a greater work effort towards significant risks of material misstatement of the financial statements arising from fraud as compared to significant risks in respect of other aspects of the audit and/or those in respect of error. This elevation of fraud related matters over other aspects of an audit may have unintended consequences of widening the expectation gap in respect of the auditor's responsibilities in relation to fraud.

In addition, the requirement for the auditor to include suspected fraud as KAMs may give rise to the unintended consequence of the auditor reporting additional information that management has not disclosed. This may result in the auditor breaching the terms of client confidentiality and may even give rise to potentially serious adverse consequences, particularly if it is eventually concluded that there was no fraud. We recommend that considerations of such consequences be included in the auditor's assessment with respect to suspected fraud, with linkage to paragraph 14 and related application material in ISA 701.

(b) Statement when there are no KAMs related to fraud

We disagree with the requirement under paragraph 64 stipulating that if there are no KAMs related to fraud to communicate, the auditor needs to include a statement to that effect in the KAMs section of the auditor's report. Currently, the auditor expresses an opinion that the financial statements as a whole are free from material misstatement, whether due to fraud or error. Hence, there is no need for such a separate statement and specific emphasis on this aspect of the audit as compared to the rest.

We have heard overwhelmingly strong concerns that such a statement may be misconstrued as an affirmative statement by the auditor that there is no fraud. This would perpetuate the misconception on the auditor's responsibility in relation to fraud and further widen the expectation gap. Concerns were also raised on legal implications in the event that auditor makes such a statement, but fraud is subsequently uncovered. These concerns may lead to unintended consequences of over-auditing.

In addition, to avoid including such a statement, auditors may be driven to include boilerplate disclosures on revenue and management override of controls (being default fraud risk areas) in the auditor's report, which do not enhance communicative value and may detract users of financial statements from important information set out within other KAMs.

2. Responsibilities of management vs auditors

We note that the section on auditor's responsibilities in the auditor's report has expanded significantly over the years due to revisions to the ISAs, but the section on responsibilities of management and directors is comparatively lean, especially in the area of fraud. It may be worthwhile to explore expanding on the responsibilities of management and directors in auditor's report to raise awareness that the primary responsibility for preventing and detecting fraud lies with management and directors.

With reference to the comments under point 1(b), the requirement for such a statement in the auditor's report as required by paragraph 64 goes beyond what management is required to disclose. If the auditor is required to make such a statement, management should be required to make a similar statement. However, we anticipate that management may have similar concerns in respect of legal and other implications.

Lastly, concerns were raised that the usage of the terms "identified fraud" and "suspected fraud" may also perpetuate the misconception that the auditor is expected to detect all fraud when the focus is only on material fraud. In this regard, we suggest including the word "material" to these terms.

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 are supportive of extending the requirements to entities other than listed entities. However, in line with our comments to IAASB's ED on *Proposed Narrow Scope Amendments to International Standards as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code*, instead of extending the requirements to all public interest entities, the level of public interest in the entity should be considered in extending the additional auditing requirements.

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

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: [Agree, with comments below](#)

Detailed comments (if any):

1. Areas where more guidance is needed

While we appreciate the scalability considerations included in the ED, we note the requirements and application material are more focused on entities with formal set-ups and proper internal control environment. More guidance is required to address scalability in situations such as:

- Extent of work relating to understanding control environment and testing controls in audits where substantive approach is adopted, which is common for audits of smaller entities.
- Addressing management override of controls in less formal set-ups where directors are shareholders, or when directors are not readily accessible.

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):

1. Communication to stakeholders

While many of the ISAs have been revised to address public interest concerns, we feel that the perception of the audit profession has not improved. One reason could be that it is not apparent to the users of financial statements how the revisions to the ISAs would benefit them in terms of better quality audits. Instead of emphasising the limitations of an audit (in the area of fraud and other matters), communication should be focused on major revisions to the standards that are most impactful to audit quality, for example, ISA 315 (Revised 2019).

Also, we continue to observe lack of understanding on the role of the auditor vis-à-vis management and those charged with governance. Further outreach efforts by IAASB are necessary to educate the public about the important components of the financial reporting ecosystem, including company culture, corporate governance and internal control environment, all of which play crucial roles in determining the quality of financial reporting information.

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*

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):

If IAASB's intention is to coordinate the effective dates with the revisions to other ISAs (including on going concern), we anticipate that more time is required (at least 36 months) to facilitate proper implementation, taking into consideration potential engagement with regulators to review and update laws and regulations (for e.g. those surrounding responsibilities and reporting requirements of those charged with governance) as well as outreach activities to raise awareness amongst other stakeholders.