

## 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)   | Ibracon – Instituto de Auditoria Independente do Brasil         |
| Name(s) of person(s) responsible for this submission (or leave blank if the same as above)   | Ahmed Sameer El Khatib  |
| Name(s) of contact(s) for this submission (or leave blank if the same as above)  |   |
| E-mail address(es) of contact(s)   | ahmed.khatib@ibracon.com.br                                     |
| 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="#">South America</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="#">Member body and other professional organization</a> |
|  | If "Other," please specify.                                     |
| Should you choose to do so, you may include information about your organization (or yourself, as applicable).  |   |

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, question no. 10 in Part B allows for raising any other matters in relation to the ED).

**Information, if any, not already included in responding to the questions in Part B:**

## PART B: Responses to Questions for Respondents in the EM for the ED

**For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.**

### *Responsibilities of the Auditor*

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?

*(See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)*

*(See ED, paragraphs 1–11 and 14)*

**Overall response:** Agree, with comments below

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

- a. *Proposal to dissociate the description of inherent limitations relating to fraud in an audit x paragraphs describing the auditor's responsibilities related to fraud:*

- having inherent limitations described together with the auditor's responsibilities is important because those inherent limitations are fundamental for stakeholders in understanding the auditor's responsibilities in relation to fraud. So, the proposal to dissociate" these concepts might lead to misunderstanding.*
- Application material within A12 of ED-240 provides important context for stakeholders to understand "why" the risk of undetected misstatements due to fraud are higher than those due to error. We believe that the content within A12 should be presented together with Para..*

- b. *Responsibilities of Management and TCWG x Responsibilities of the auditor*

- the responsibilities of the auditor in ED-240 were described before those of management and TCWG, and those are more prominent. Given that the primary responsibility for the prevention and detection of fraud resides with management and TWCG as stated in Para 3 of ED-240, we believe this paragraph should be placed before those describing the auditor's responsibilities.*
- Certain "protective" language in the extant was removed from ED-240, including (suggestion to include these protective language):*
  - That it will be rare the auditor detects fraud (ED-240, paragraph 6)*
  - That the auditor may accept records and documents as genuine (ED-240, paragraph 20)*
  - That it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error (ED-240, paragraph A12)*
  - Paragraphs 19 and 21 use language that does not provide appropriate transparency of the auditor's responsibilities for fraud (e.g., shall remain alert throughout the audit).*

*c. Quantitatively material fraud*

- *we suggest that the ED-240 also consider the matter of “intent” when dealing with qualitative considerations (i.e. determining whether the fraud or suspected fraud is qualitative material), including expanding the application material to provide guidance as to relevant considerations for the auditor when determining whether the “intent” is a present element. “Intent” also helps in the evaluation of whether a misstatement would be qualitative material (e.g. a misstatement may be quantitatively not material but may involve senior management and appear to be intentional – this may indicate a misstatement due to fraud that may be qualitative material).*
- *Additionally, we also believe more clarity is warranted in paragraph A11, which considers when an identified misstatement due to fraud that is not quantitatively material may be qualitatively material.*

*d. Third-Party Fraud*

- *as the identification and response to risks of material misstatement due to third-party fraud may be more challenging for auditors, we recommend that ED-240 provides more guidance with respect to considerations for auditors when identifying and assessing risks of material misstatement in relation to third-party fraud and how to respond to these risks. This may include factors to consider (including industry-specific and jurisdiction risks), potential effects arising from the broader geopolitical and economic environment, examples of “red flags”, example of inquiries to perform to management and TCWG, areas of the financial statements that are more susceptible to third-party fraud, and when to consider having access to third-party’s systems, records and personnel to perform audit procedures to address such risks.*
- *Paragraph 92 of the Explanatory Memorandum (EM) that accompanies ED-240 states that the “IAASB did not support expanding the role of the auditor to detect third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements. However, the IAASB enhanced the application material in paragraph A16 of ED-240 by explaining the auditor’s action if third party-party fraud or suspected fraud is identified by the auditor that may give rise to risks of material misstatement due to fraud.” We do not believe that paragraph A16 as currently drafted, which also refers to, as an example, the effects of a cybersecurity breach, clearly explains this intent. Thus, we suggest including another example in this paragraph and leave cybersecurity issues to the technology workstream.*
- *Additionally, paragraph A21 fails to limit the role of the auditor to third-party fraud that poses a risk of material misstatement due to fraud.*

*e. Non-material fraud*

*With respect to non-material fraud, we support paragraph 6 of ED-240, however we believe it is still unclear that the auditor does not have to apply the response requirements in respect of identified or suspected fraud that is clearly not material. A second sentence should be added to paragraph 6 to make this explicit.*

*In order to complement performance of quality audits and fully address elements of the expectations gap, we believe that solutions that deliver meaningful change demand a comprehensive approach involving active engagement from all stakeholders. For example, changes could be considered by global regulators*

*and standard setters, for certain entities, to enhance management's focus on establishing and monitoring processes and controls to identify, assess and respond to risks of fraud and more fulsome disclosure by entities, in providing transparency to users of financial statements, about such processes and controls. We encourage the IAASB to continue in active dialogue with other stakeholders in the reporting ecosystem to influence broader change.*

*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 also recommend the following, aiming the auditor's exercise of appropriate professional skepticism with respect to fraud:*

- a. retaining Para. 13 and 16 from the extant standard as it relates to "honesty and integrity of management and TCWG" as those are helpful to remind auditors to potential biases from past experience, to drive a mindset in which auditors are able to identify and reflect on their potential biases and consciously set them aside and could include guidance specific to how such biases could negatively affect the effectiveness of the auditor's identification, assessment and response to fraud risks.*
- b. improve linkage with ISA 600 Revised to address fraud that may arise at components, highlight the importance of the involvement of component auditors and their exercise of professional skepticism, specially when the component is located at "higher risk" jurisdictions (e.g. due to rapidly changing regulatory environment, business landscape and subject to heightened fraud risks)*
- c. inclusion of further guidance within application material related to the importance of having robust discussion with management, involvement of more senior team members and challenge management and others, as appropriate; and further discussion on the potential implications for the audit that may arise from the auditor's understanding of management's honesty and integrity*
- d. expand guidance in relation to Para. 21, so that it is clear auditors should remain alert for information that is indicative of fraud. This includes remaining alert both to circumstances that may be indicative of fraud and events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (connection with fraud risk factors)*
- e. taking into account the risk of management override within Para. 23 when determining the nature, timing and extent of direction, supervision and review*

- f. *clarify the intentions with regards to expectations of the auditor in relation to the “authenticity” of records and documents as discussed in Para. 20 and A26, and its interaction with ED-500 and base principle that will remain in ISA 200. Expand when conditions that cause the auditor to believe that a record or document may not be authentic come to the auditor’s attention, these conditions affect the reliability of audit evidence pursuant to ISA 500.*

*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 comments below](#)

**Detailed comments (if any):** *Although we recognize that ED-240 expands on ISA 315 and ISA 330, we believe that is still a lot of repetition of the other standards, especially in the application material. Thus, we would recommend further revision to eliminate duplication.*

*Additionally, we also believe ambiguity exists since many of the risk assessment requirements from ISA 315 (Revised 2019) are included in ED-240 with certain paragraphs retaining very similar language between the two standards and other paragraphs having differences. Recommending the IAASB be clearer in their intention, ensuring that the requirements have a clear "fraud lens".*

*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):** *Besides we acknowledge that is a matter of professional judgment, the extent of the audit procedures to be performed by the auditor when fraud is identified and when there is ‘only’ a suspected fraud could be enhanced with further examples of situations in the application material. Also, in determining whether identified misstatements due to fraud are material, we have noted that ED-240 requires the auditor to consider the nature of the qualitative or quantitative circumstances giving rise to the misstatement and conclude accordingly. However, the*

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

***impact of communicating fraud risks to the public especially when it was not possible to conclude as it is required in paragraph 59 of ED-240 can be challenging and could generate additional responsibilities to auditors. Therefore, the need to evaluate this communication should be highlighted in the expected outcomes of the performed procedures.***

a. Scalability

- *Para. 55-56 might be unnecessarily onerous in certain circumstances. Paragraph 55 is not clear if the requirement is related solely to instances of fraud or suspected fraud discovered by the auditor or all instances of fraud or suspected fraud, including those identified by the auditor and those identified by others such as management. In addition, sometimes the auditor may be able to conclude that a fraud is an isolated occurrence and clearly quantitatively and qualitative immaterial not necessarily performing all the procedures as required in Para. 55-56.*
- *Para. 56 seem to be unduly onerous to require the engagement partner such requirement specially when the partner is the group engagement partner. We suggest that the requirement be modified to clarify that the engagement partner “take responsibility” to such determinations. Then, we recommend changing “determine whether” to “take responsibility for the determination as to whether”*
- *ED requires the auditor to perform procedures in response to allegations of fraud. However, the application of all the requirements at Para. 55-59 to “all” allegations does not seem appropriate in all circumstances*

*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 are of the opinion that including fraud matters in the auditor’s report is not beneficial. Financial statements and auditor’s report users can be misled around auditor’s responsibilities regarding fraud (even though with the definition in the standard) and it can also raise other questions around the sufficiency of the audit procedures performed to address fraud risk. In addition, through KAM mechanism auditors will need to describe the performed procedures, including the unpredictable ones. Along the years, the unpredictability element will be lost.*

*Additionally, as currently drafted, we believe ISA 240 puts more responsibility on the auditor than management when disclosing fraud or suspected fraud. We understand that ISA 701 appropriately addresses the considerations an auditor should make in determining which matters required*

**significant auditor attention in performing the audit, including matters related to fraud or suspected fraud.**

- The positioning of requirements to determine and communicate KAMs outside ISA 701 seem confusing. We are concerned that the requirements in Para. 61-62 may be interpreted as a “parallel” process for determination of KAMs in respect to fraud that is separate and/or incremental to the determination of KAMs in respect of other aspects of the audit in accordance with ISA 701. We also believe that this may result in auditors considering that a fraud-related KAM would always be included in the auditor’s report, even when the fraud-related matter was not, in fact, of the most significance to the audit.
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- As currently drafted, the statement in paragraph A173 that “revenue recognition or management override of controls may be regularly determined as key audit matters related to fraud” seems to act as positive encouragement to do so in all cases.
- We are concerned that the requirement in paragraph 64 may lead to unintended consequences and further exacerbate the expectations gap. The statement that there are no KAMs related to fraud may be read as a guarantee that contradicts the inherent limitations of an audit as described in paragraphs 10-11 of the standard.

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):** *Considering the transparency in the auditor’s report is being suggested in the ED-240 through KAM and ISA 701 is mandatory only for listed entities, the consistency should be maintained.* As a result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code, due to the lack of clarity about the adoption protocol, we do not believe the IAASB should consider expanding the transparency requirements in ED-240 to PIEs at this time, ***We believe that PIE definitions will vary greatly within jurisdictions, which could lead to material inconsistencies across the world. Furthermore, there is a risk of boilerplate KAMs becoming prevalent if those requirements are extended to all PIEs, rather than publicly traded entities only.***

*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):** Given that there exist stand-back requirements in other ISAs, we believe that the requirement in paragraph 18 of ISA 330 is sufficient, and it is not necessary to include a separate stand-back requirement in ED-240.

#### 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):**

We suggest enhancements in ED to better address our concerns mentioned in our response at Question 4, in particular, aiming to enable the standard to be scaled up, for audits of larger and more complex entities. We also have concerns about paragraph 22, if in all situations we have to involve fraud specialists and paragraph A36, if its specialist would be required in all audits. We recommend more guidance about these two paragraphs.

#### 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)

<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*

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

**Detailed comments (if any):** *Please also consider the response to question 3.*

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

**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):**

*No concerns or issues about the translation of ED-240.*

*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 believe that the effective date should be considered, 18-months, at a minimum, between approval of the final standard and the effective date.*