



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

10 June 2024

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, 10017 USA

Dear Willie,

**Proposed International Standard on Auditing (ISA) 240 (Revised) The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs**

The Auditing and Assurance Standards Board (AASB) of the Malaysian Institute of Accountants (MIA) welcomes the opportunity to provide its comments on the Exposure Draft, Proposed International Standard on Auditing (ISA) 240 (Revised) *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and Proposed Conforming and Consequential Amendments to Other ISAs issued by the International Auditing and Assurance Standards Board (IAASB).

We attach in Appendix 1, our responses to the questions in the Exposure Draft. We hope our comments would contribute to further deliberation by the IAASB on the matter. If you have any queries or require clarification of this submission, please contact Simon Tay Pit Eu at +603 2722 9271 or email to [simontaypiteu@mia.org.my](mailto:simontaypiteu@mia.org.my).

Thank you.

Yours sincerely,  
**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

**DR WAN AHMAD RUDIRMAN WAN RAZAK**  
Chief Executive Officer

## 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)   | Malaysian Institute of Accountants                              |
| Name(s) of person(s) responsible for this submission (or leave blank if the same as above)   | Simon Tay Pit Eu  |
| Name(s) of contact(s) for this submission (or leave blank if the same as above)  |   |
| E-mail address(es) of contact(s)   | simontaypiteu@mia.org.my  |
| 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="#">Asia Pacific</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):

While the enhanced guidance describing third-party fraud is useful, there may be confusion regarding the auditor's responsibilities related to third-party fraud, i.e., whether it is sufficiently clear that the auditor is not expected to design and perform procedures specifically to detect third-party fraud that is not directly related to a risk of material misstatement due to fraud in the financial statements.

Paragraph A16 as currently drafted, which also refers to, as an example, the effects of a cybersecurity breach, does not seem to clearly explain the IAASB's intent included in Paragraph 92 of the Explanatory Memorandum that accompanies ED-240.

With respect to non-material fraud, it may be helpful to make it more explicit that the auditor does not have to apply the requirements in relation to identified or suspected fraud that is clearly not material as compared to, for example, the phrase "in relation to matters that are clearly inconsequential" used in the provisions of the IESBA Code in responding to non-compliance with laws and regulations (NOCLAR).

While we agree for the decoupling of the auditor's inherent limitations from the auditor's responsibilities relating to fraud, the primary responsibility for the prevention and detection of fraud still rests with management and those charged with governance ('TCWG'). The ED-240 discloses the responsibility of the auditor in relation to fraud ahead of management's and TCWG's responsibility. This may result in skewed reading of where the primary responsibility lies. We make reference to ISA 250 (Revised), where the standard states first the responsibility for the compliance of laws and regulations lies with management and TCWG before specifying the responsibilities of the auditor. This would present a more coherent flow of information by stating the primary responsibility prior to stating the scope of an auditor's responsibility.

The "Inherent Limitations" section in ED-240 is proposed to be presented separately from the "Responsibilities of the Auditor" section. Although this separation does not reduce the auditor's responsibilities regarding fraud, it is important to set the expectation that there is an unavoidable risk that material misstatements due to fraud may not be detected.

### *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):

While some of the new requirements proposed by the IAASB are already best practice behaviours in high-quality audits such as remaining alert throughout the audit for information that is indicative of fraud or suspected fraud, the proposed changes are likely to help focus engagement team attention on relevant fraud-related considerations. Taken in conjunction with other changes described on risk identification and assessment, this may help reinforce behaviours underpinning the exercise of professional skepticism throughout the audit in relation to fraud.

However, we disagree with the removal of the sentence “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” in paragraph 20 of ED-240 (revised paragraph 14 of ISA 240). In auditing, an auditor has to apply professional skepticism and the entry point should start with the basis that evidence is genuine unless the auditor has reason to believe the contrary. An audit is different from an investigation engagement where the latter’s starting point is to assume evidence as not credible. While we acknowledge that the same clarification has been made in paragraph A24 of ISA 200, the removal of the aforementioned words creates an impression that the sentence contradicts with the further explanatory paragraph A26 of ED-240. Please see the compounded requirements of paragraph 20 and A26 of ED-240 as follows:

Paragraph 20 of ED-240: *“If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.”*

Paragraph A26 of ED-240: *“The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. However, audit procedures performed in accordance with this or other ISAs, or information from other sources, may bring to the auditor’s attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor. Paragraph 20 applies if the auditor identifies such conditions during the course of the audit.”*

**Examples:**

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 include:

- Unexplained alterations to documents received from external sources.
- Serial numbers used out of sequence or duplicated.
- Addresses and logos not as expected.
- Document style different to others of the same type from the same source (e.g., changes in fonts and formatting).
- Information that would be expected to be included is absent.
- Invoice references or descriptors that differ from other invoices received from the entity.
- Unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms (e.g., purchase costs that appear unreasonable for the goods or services being charged for).
- Information that appears implausible or inconsistent with the auditor's understanding and knowledge.
- A change from authorized signatory.
- Electronic documents with a last edited date that is after the date they were represented as finalized.

**As per the above, paragraph A26 states that an auditor is not required to perform specific audit procedures to identify conditions that may question the authenticity of the documents. However, the paragraph also states that paragraph 20 applies when the conditions listed are identified. To prevent any unintended consequences of stating specific examples of conditions that may cause an 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, it is imperative that there be clarity in the standard that the examples of conditions are to be considered only if identified during the ordinary course of performing the audit procedures based on the assessed risks of material misstatements and not as part of procedures designed specifically to identify those examples. In addition, there needs to be practical guidance on the expected level of alertness required by the auditor of these conditions when carrying out audit procedures during the ordinary course of an audit.**

**It may be helpful for the IAASB to revisit the linkage between paragraphs 20 and A26 of ED-240 and the proposed ISA 500 (Revised) in relation to the evaluation of the attributes of audit evidence, including authenticity for clarity on the expected effort and related documentation.**

*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):

Changes that build on the foundational requirements in ISA 315 (Revised) and provide specific fraud related considerations in executing those risk assessment procedures requirements can be supported.

The enhanced requirements for the engagement team discussion may facilitate more meaningful discussions regarding fraud risk factors, which, in combination with the changes proposed for other risk assessment procedures, may lead to a more informed identification and assessment of the risks of material misstatement due to fraud.

Further clarity may be useful in some of the requirements that seem to be a duplicate of the baseline ISA 315 (or other ISA) requirements without a clear “fraud lens”. For example, Paragraph 26(b) which is directly repetitive of ISA 315 (Revised 2019) paragraph 13(b) with no additional fraud lens and Paragraph 30 which seems repetitive of ISA 500 paragraph 11. We suggest that the IAASB consider amending the below paragraphs as follows:

“In designing and performing procedures in accordance with ISA 315 (Revised 2019), the auditor shall perform the procedures in paragraphs 27-39. In doing so, the auditor shall consider whether one or more fraud risk factors are present.”

“In applying ISA 500, if the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity are inconsistent with each other, the auditor consider whether such inconsistencies indicate that one or more fraud risk factors are present and shall:

- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
- (b) Consider the effect, if any, on other aspects of the audit.”

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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 comments below](#)

Detailed comments (if any):

The phrase “suspected fraud, includes allegations of fraud” is mentioned throughout ED-240 in a few paragraphs. We would like to suggest that the IAASB use that phrase in paragraph 7 and for subsequent paragraphs, to consistently use the term “suspected fraud”. Alternatively, the IAASB could consider including the definition of suspected fraud in paragraph 18 to provide better clarity of the term.

*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 comments below](#)

Detailed comments (if any):

We agree with the enhanced transparency on the auditors’ responsibilities to communicate with TCWG regarding (i) identified fraud or suspected fraud; and (ii) other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of TCWG. While the auditor plays a role in the prevention and detection of fraud, the primary responsibility for prevention and detection of fraud rests with both TCWG of the entity and management. The proposed clarification on the auditor’s fraud-related responsibilities (Paragraph 40(a) of ISA 700 (Revised)) in the auditor’s report may widen the expectation gap on who has the primary responsibility over the prevention and detection of fraud. We would like to suggest the IAASB add clarity or enhance the paragraph in ED-240 on “Responsibilities of Management and TCWG”.

The proposal to use the KAMs section of the auditor’s report to increase transparency about matters related to fraud is reasonable, and preferable than a stand-alone section of the auditor’s report.

However, we would suggest the IAASB to continue to use the existing naming convention “Key Audit Matters”. It is not necessary to modify the naming convention to “Key Audit Matters Including Matters Related to Fraud”. Doing so might give the wrong impression that the auditor has a dedicated task to detect fraud in the audit and must include fraud discussion under key audit matters. This might deepen the already existing misconception on the role of auditor over fraud.

The requirement in paragraph 64 of ED-240 may further increase the expectation gap. The statement that there are no KAMs related to fraud may be misconstrued as a guarantee that there is no fraud



and is in contradiction with the inherent limitations of an audit as described in paragraphs 10-11 of ED-240. As such, we recommend that this requirement be removed.

In addition, it would be helpful for the IAASB to include illustrative examples of KAMs that have a fraud element.

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):

In line with the current proposals to introduce new definitions for PIE and publicly traded entities into the ISAs and align them with the IESBA Code, we understand the thought process for the transparency requirements in ED-240 to be extended to other PIEs in addition to listed entities.

However, there may be potential consequence of giving rise to less meaningful KAMs if the requirement is extended to all PIEs as some entities that may fall into the broad categories of the PIE definition may be non-complex in nature or share common risks. This may lead to standardised or boilerplate KAMs which could undermine their purpose and further increase the expectation gap or that the transparency requirement in ED-240 may be less relevant for non-complex entities.

As such, we recommend that the reporting of matters relating to fraud introduced in ED-240 should be limited to a 'publicly traded entity'.

As per the current paragraph 5 of ISA 701 (Revised), the application of ISA 701 (Revised) is voluntary for any entities other than listed entities or as required by the law. Extending these requirements to PIEs beyond publicly traded entities, which encompass entities of diverse operations, nature, and size, might result in disproportionate costs outweighing benefits that may also differ within jurisdictions. Auditors/regulators can exercise discretion/implement local regulations to determine whether disclosing such matters would bolster stakeholders' confidence in the audit and the audited financial statements of these 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: [Agree, with comments below](#)

Detailed comments (if any):

**If an auditor appropriately applies all the requirements across the ISAs, there is no need for any further stand-back requirement in ISA 240 (Revised).**

*Scalability*

8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities, given that matters related to fraud in an audit of financial statements are relevant to audits of all entities, regardless of size or complexity)?

(See EM, Section 1-J, paragraph 113)

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<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:** [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:** [No, with 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*

Although ISA 240 is not a recent addition, numerous amendments have been proposed, potentially leading the public to perceive a broadening of auditors' responsibilities. To manage these perceptions, the IAASB should prioritise effective communication and education initiatives aimed at clarifying the role of auditors in addressing fraud matters. It is important to underscore that while auditors play a crucial role, the primary responsibility for preventing and detecting fraud still lies with management and TCWG. Therefore, it is imperative for management and TCWG to implement robust controls to safeguard against fraudulent activities.

*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):**

**Not applicable for Malaysia**

*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):**

**Acknowledging the overlapping changes to the auditor's report being proposed in the IAASB's Going Concern and the Listed Entity and PIE – Track 2 projects, we agree in principle with the proposal to align the effective dates of all three projects.**