

## 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)	European Federation of Accountants and Auditors for SMEs (EFAA for SMEs)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Salvador Marin, EFAA President Paul Thompson, EFAA Technical Director
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	<a href="mailto:secretariat@efaa.com">secretariat@efaa.com</a>
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="#">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).	The European Federation of Accountants and Auditors for SMEs (EFAA for SMEs) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 400,000 individual members. See <a href="http://www.efaa.com">www.efaa.com</a>

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:**

EFAA appreciates the opportunity to provide our comments on the ED-240. Our response has been prepared with input from our Assurance Expert Group. EFAA supports the IAASB's focus on addressing the issues and challenges related to fraud in audits of financial statements.

Given our constituency is small- and medium-sized accountancy practices (SMPs) in Europe we have three main considerations. First, to ensure that the standard will be sufficiently scalable to be used by SMPs on SME audit engagements. We strongly prefer a 'Think Small First' approach, developing straightforward regulation and standards for SMEs and SMPs and then scaling up to suit larger more complex companies and practices. Second, to ensure that there is sufficient guidance for auditors that have limited technical resources. SMPs face a significant challenge complying with the ISAs. And third, to ensure that the standard serves the European public interest. In general, EFAA believes that the ED-240 largely addresses these three considerations.

Nevertheless, we are concerned that some of the proposals may lead to a widening of the existing expectation gap. The requirements proposed may also result in extra work and effort on all audits, regardless of whether there have been specific fraud risks identified, and without a corresponding increase in value. In this way, the changes may result in an approach that, for many SME audits, is neither practical nor cost effective and that yields no meaningful difference to audit quality in many cases. We explain these concerns further below.

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

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

We recognize the challenges in setting out the auditor's responsibilities relating to fraud and the context under which the proposals have been developed. It is critically important that the revisions emphasize the inherent limitations of the ability of the auditor to address challenges raised by fraud so that this is clear to and understood by all users. We believe the current text under inherent limitations could be revised to make this point clearer and, in so doing, help address the expectation gap that exists in this area.

The proposals appear to place greater emphasis on employee fraud than management fraud. In the context of SMEs this may be inappropriate since management fraud is often more likely to significantly impact the entity. We suggest the IAASB heighten the profile of management fraud to mitigate the risk of SMP auditors focusing more attention on employee fraud that poses less risk to their clients.

We are also concerned that the proposals may increase the work effort related to non-material fraud. The auditor has no formal responsibilities in this area, since their focus should be on significant risks, including those of material misstatement due to fraud. Any specific work completed on non-material fraud or

suspected fraud would divert resources from more important risks. Consequently, we urge the IAASB to revisit the references to fraud and suspected fraud throughout ED-240 and ensure they convey the appropriate focus.

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

**Detailed comments (if any):**

While we welcome added emphasis on professional skepticism, we recognize that this will have limited real impact. We agree with some of the changes, such as the removal from paragraph 19 of reference to the auditor's prior experience of the honesty and integrity of the entity's management and those charged with governance (TCWG), as this will avoid complacency and reinforce objectivity. However, we have some specific concerns. We note that in paragraph 20, the requirement no longer states unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. The requirement has been softened to application guidance. We fear this might result in auditors expending undue effort to validate the legitimacy of documents where there are no identified indications of issues.

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

**Detailed comments (if any):**

While in general we support ED-240 building on the foundational requirements in ISA 315 and other ISAs, we believe the presumed risk of fraud in revenue recognition is less relevant for SMEs as it is in larger entities. A more calibrated consideration of where fraud risk appears could have been used to develop some of the foundational thinking for the standard. We wonder whether recognizing sales or costs in an incorrect accounting period, manipulating stock, or manipulating bad debt provisions would be more prevalent risks than revenue recognition, especially for SMEs.

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

We welcome the application guidance for smaller and less complex entities but believe more guidance is required to illustrate what would be appropriate and how scalability would work practically. For instance, A55 of ED-240 states “In the case of a smaller or less complex entity, some or all of these considerations may be inapplicable or less relevant.” While some examples are provided, there is insufficient illustration of the expected process and what elements of the considerations can be scaled back to make them more applicable to SMEs.

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

**Detailed comments (if any):**

We note that in paragraphs 55-59 the public interest table (B.19) clarifies that “the “fraud or suspected fraud requirements” applies to all instances of fraud or suspected fraud identified by the auditor, irrespective of materiality, and that the auditor is required to apply some or all of those requirements before determining the implications of the fraud or suspected fraud on the audit, including whether it is inconsequential.” We believe the expectations with regard to the level of enquiries and work that needs to be conducted in relation to non-material fraud is unclear.

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

**Detailed comments (if any):**

We are generally supportive of improving transparency in matters relating to fraud in audit reports where this provides useful information to users and serves the public interest. That said, we believe some of the requirements proposed in ED-240 could be problematic.

Inclusion of key audit matters (KAMs) regarding fraud in every report or requiring disclosing that there are no such KAMs in every report could encourage boilerplate disclosure. This reporting may also congest the audit report with information that detracts from other more important matters. We also fear that the reporting of suspected fraud in the audit report could expose auditors to accusations of false reporting if such suspicions are not subsequently validated. Furthermore, if there are no KAMs related to fraud then this may

be misinterpreted by users as the auditor signing off that there is no fraud. In so doing, this might widen the expectation gap. Overall, we question the effectiveness of auditor reporting, and auditing standards in general, to meaningfully address fraud.

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

**Detailed comments (if any):**

While we support the expansion of transparency in the auditor's report about matters related to fraud to PIEs, we would not support any further extension to other entities more generally.

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

**Detailed comments (if any):**

We believe that scalability within the ISAs remains critically important and question whether the ED-240 is sufficiently scalable. We urge the IAASB to make the scalability considerations in ED-240 more explicit with more guidance provided to assist practitioners in application. We recognize that there is some discussion on scalability in the application guidance, but it is not clear what how these might shape the conduct of an SME audit performed by an SMP. More detailed guidance or examples are needed which can help improve the efficiency of an SME audit while ensuring the satisfaction of regulators.

*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:** No response

**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):**

We note that the proposals in ED-240 refer to ISA 230 and include a long list of documentation requirements in paragraph 70. Since these requirements would be applicable (to the extent relevant) to all engagements, there will be cases where some of the required documentation may add little value to the audit. Hence, we urge the IAASB to reconsider which of the documentation requirements outlined are in fact critical to all engagements and differentiate those which are more appropriate where a significant risk of fraud is identified. In this way one can avoid unnecessary or boilerplate documentation.

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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*

*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:** [See comments on translation below](#)

**Detailed comments (if any):**

We believe the standard is reasonably easy to understand in English. It is clear and unambiguous. That said, we encourage the IAASB to consider whether the standard can be shortened by removing any duplication and repetition.

*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 an effective date 18 months after approval of the final standard may not be ideal. Many European countries will need to translate and make some adjustments to align with local law. Audit firms, especially SMPs, will need time to implement including training staff and updating their methodology and approach. Furthermore, alignment of the effective date with ISA 570 revisions will be beneficial to users of the standard. Consequently, a 24-month period would be favorable, and may be especially useful for SMPs in allowing extra time to implement the standard.