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| Datum | Onderwerp | Referentie | Bijlage(n) |
|-------------|---|--------------|---|
| 4 June 2024 | Responses to IAASB's request for comments | 24/JZ/170371 | Responses to IAASB's request for comments |

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Dear Mr Seidenstein,

The NBA welcomes the opportunity to respond to the Exposure Draft of the 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* (hereafter 'ED-ISA240'). You have asked us to provide our feedback using a specifically developed template. We have attached that template as an Annex to this letter. The letter itself addresses our key comments on the ED-ISA240.

Executive summary

Overall, we commend the IAASB for the efforts to revise ED-ISA240, given the public interest expectations as well as the experiences with extant ISA240. We strongly support the IAASB's efforts to better align ED-ISA240 with the revised risk model (per ISA315). We also appreciate the clarification of the auditor's responsibilities regarding fraud as well as the enhanced balance in how the standard describes the auditor's responsibilities in relation to management's responsibilities. In our view, these revisions represent a major step forward.

Suggestions for further improvement

You may be aware that the Netherlands has already implemented additional transparency requirements for auditors, which include mandatory reporting of the auditor's determination of fraud risks and the procedures performed in response to those risks. We recommend auditors to also report their findings from these procedures. Whilst we will be evaluating this reporting and whether enhancements are needed, we do think stakeholders demand transparency. We think ED-ISA240 could be enhanced in this regard, in particular for non-PIE engagements.

Further, in the attached response template, we have identified other areas for improvement. These mainly relate to the flow from fraud risk factors to fraud risks, on how this standard interacts with other ISAs, and to further specificity and clarity of certain areas of ED-ISA240.

Closing Remarks

For further information, please contact Martijn Duffels (m.duffels@nba.nl).

Yours sincerely,
NBA, the Royal Netherlands Institute of Chartered Accountants,

Anton Dieleman,
Chair of the Dutch Assurance and Ethics Standards Board
NBA

Koninklijke Nederlandse
Beroepsorganisatie
van Accountants



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) | Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA, the Royal Netherlands Institute of Chartered Accountants) |
| Name(s) of person(s) responsible for this submission (or leave blank if the same as above) | Anton Dieleman, Chair of the Dutch Assurance and Ethics Standards Board |
| Name(s) of contact(s) for this submission (or leave blank if the same as above) | Martijn Duffels Senior Technical Expert |
| E-mail address(es) of contact(s) | m.duffels@nba.nl |
| Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option. | Europe |
| | 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. | Jurisdictional/ National standard setter |
| | If "Other," please specify. |
| Should you choose to do so, you may include information about your organization (or yourself, as applicable). | The NBA is the professional body for accountants and auditors in the Netherlands. NBA's members include over 21,000 professionals working at accounting firms, government agencies, as internal auditors or in organizational management. |

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

Positive remarks:

We support the approach of emphasizing and clarifying the auditor's responsibilities. ED-240 clarifies and enhances the auditor's responsibilities:

- Starting with the auditor's responsibilities in par. 2, the concept of material fraud on qualitative considerations in par. 8, and the concept in par. 9, 10 and 11 that inherent limitations do not diminish the auditor's responsibility.
- Furthermore, par. 14 (non-compliance with laws and regulations) sets out that fraud comes first, on which the auditor has to act in accordance with ED-240. Non-compliance may introduce additional responsibilities as explained in par. A15.

Constructive critical remarks:

The responsibilities and requirements imposed on the auditor will become effective in practice if audited entities and other parties in the financial reporting ecosystem also assume their roles and responsibilities.

Various forms of corruption or bribery can be regarded as fraud, for instance bribery, kickbacks and facilitating payments, depending on jurisdictional provisions. In par. A18, corruption or bribery seem to be considered as dealing with laws or regulations. In par. A19, forms of corruption and bribery are considered as forms of fraud. We suggest IAASB clarify in what cases corruption or bribery are to be considered as fraud in relation to the definition of fraud, and not only with examples in A19.

Regarding misappropriation of assets (par. 5, 18(a)), we suggest IAASB to explain whether this might include 'product fraud' and at what moment this becomes the auditor's responsibility to act. Although this aspect is not the primary goal of an audit, this may become relevant through indications of fraud or non-compliance. For example, the engineering of fraudulent software and items to commit 'diesel fraud' includes intent, concealment and illegitimate benefit and therefore may be categorized as product fraud, i.e. being fraudulent relating to products as to obtain inappropriate benefits. Furthermore, this was likely not what the shareholders of the perpetrating car manufacturers had in mind for their investment.

Regarding par. 10, what is meant by less than persuasive evidence ('However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.')

The audit evidence ordinarily required is sufficient and appropriate. In light of inherent limitations should there be more sufficient appropriate audit evidence than is ordinarily required?

Regarding third-party fraud (par. 18), this may make the client complicit in money laundering by the third party. Many jurisdictions include provisions to combat money laundering (and financing terrorism). As such, this may affect the client's business and financial statements, even if the money laundering initiative came from a third party. However, this only affects the auditor's responsibility if the third party fraud results in a material misstatement in the client's financial statements. We suggest the IAASB clarify to treat third party fraud in the same manner as other fraud and include more examples in the explanatory section.

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):

Positive remarks:

Compliments for stressing the importance of maintaining professional skepticism and the examples of:

- pressure on the engagement team;
- impediments imposed by the client creating difficulties for the engagement team;
- conditions that may cause the auditor to believe that records or documents are not authentic;
- the firm's commitment to an effective system of quality management that underpins professional skepticism of the individual;
- sources of information indicative of (suspected) fraud and
- the usefulness of using forensic skills (ED-240 par. A34 / A35).

Constructive critical remark:

We suggest IAASB to give more guidance/emphasis on considerations relating to involving forensic expertise in par. 13, 'when the auditor identifies fraud or suspected fraud....'. In par. A13 a reference is made to ISQM 1 and the firm's system of quality management ['.... ,such as resources with the appropriate specialized knowledge and skills that may be needed when performing audit procedures relates to fraud...']. Par. 22 states that the engagement partner determines whether those specialized skills, such as forensic expertise, is needed for the audit engagement. We suggest IAASB add application material to help audit firms to define criteria supporting the engagement partner to determine when additional forensic or other experts are needed.

Regarding 'conditions' in par. 20 ('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.'): this threshold should be as low as possible in order to prevent the engagement team first defining situations before acting as required. In this respect we suggest the IAASB to refer to ISA 200, par. A23.

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

Positive remarks:

We support the IAASB's efforts to develop ISA 240 in such a manner that it expands on ISA 315. In our view, the extension of ISA 315 through ISA 240 signifies the importance of sufficient cross-references between the two. We observe a number of cross-references from ISA 240 to ISA 315, but we also note that ISA 315 does not refer auditors to ISA 240 when preparing the ISA 315 risk identification and assessment. In our view fraud considerations must be considered when performing a risk assessment,. Therefore we urge the Board to develop suitable corresponding amendments to ISA 315 so that auditors can understand and build on the connection between the two. In this context, we suggest to include this ISA within the Standards on Risk Assessment and Response to Assessed Risks, to better reflect the course of conducting an audit.

We appreciate that ED-240 is aligned with ISA 315, for instance in the sequence of paragraphs. Furthermore, par. 27 deals with 'Information from other sources' (different from the confusing extant term 'other information' as in ISA 720) after the general paragraph on risk identification and assessment procedures.

Also, par. 28 requires the auditor to perform a retrospective review of management judgements and assumptions related to the outcome of previous accounting estimates.

In addition, the engagement partner and key engagement team members play an active role for in the engagement team discussion (par. 29), emphasizing how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur. Par. A48 of the ED-240 is linked to ISA 220.

Furthermore par. 27 (revenue recognition) in extant ISA 240 has been rewritten and improved in par. 41 in ED-240.

Constructive critical remarks:

Regarding par. 32 (evaluating fraud risk factors), especially the concept of identifying risks (due to fraud) out of (fraud) risk factors proves to be difficult to operationalize.

Par. 24 of the ED-240 mentions the requirement to consider fraud risk factors, fraud or suspected fraud, and control deficiencies. The process from identifying fraud risk factors to identifying fraud risks remains unclear.

We suggest IAASB clarify this matter.

As we understand the subsequent requirements after par. 32, fraud risks are supposed to have been identified by the auditor from the former par. 23 to 31. In addition, we wonder why this requirement in par. 32 is limited to audit evidence obtained from the risk assessment procedures.

We suggest IAASB to include more detailed explanatory paragraphs or other material on these topics and specifically how to identify and assess fraud risks and evaluate fraud risk factors, individually and in combination. We suggest to include application material on how the fraud brainstorm and discussion can be conducted. For example applying the ISA 315 concept of using probability and magnitude to evaluate fraud risk factors and explain what exactly should be documented (such as considerations as to why a fraud risk factor does not indicate the existence of a fraud risk).

As of par. 33, and further, the auditor obtains an understanding of the entity's system of internal control. In doing so, the procedures derived from ISA 315 are (through the fraud lens) focused on fraud risks identified by the client's system of internal control. During these procedures, the auditor may identify fraud risk factors related to the client's system of internal control, in paragraphs as of 33 up to and including 40.

We suggest the IAASB rephrase par. A57 in such a way that there may be factors that may reinforce improper conduct by management:

- Ineffective oversight by TCWG;
- An ineffective internal audit function;
- The lack of a written code of conduct.

The rationale for this change is the following. In practice, we see auditors declining to identify and assess (inherent/fraud) risk factors or risks because of the image of the client's system of internal control, that is, after considerations of controls.

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):

Positive remarks:

We support the proposed new requirement to obtain an understanding of the fraud or suspected fraud. We consider this an improvement that makes explicit what is implied in the extant ISA (among other things, par. 36, 37, 41, 42, 44, which topics are included in the ED-240).

Also, this aligns with the role of the engagement partner and key engagement team members in the engagement team discussion in par. 29.

The application material enhances the various related topics.

Constructive critical remark:

We suggest IAASB consider a requirement in par. 55 to involve forensic expertise within or outside the engagement team in case of fraud, suspected fraud or indications of fraud. Further, we suggest IAASB offer an explanatory paragraph that may assist auditors in this regard.

We also suggest to include which considerations to make when evaluating the appropriateness of the remedial action plan.

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 agree with the proposed changes in ED-240 to enhance transparency about fraud-related matters in the auditor's report. We believe fraud reporting should not be limited to listed entities and public interest entities. We suggest IAASB further adjust ISA 240 accordingly.

As you may be aware, the NBA has already established extended reporting requirements for auditors in the Netherlands to report on fraud risks and fraud procedures. These requirements in the Dutch ISA 700 go beyond ED-240.

We analyzed audit reports 2021 and 2022. A first impression is that the reporting requirements on fraud have a positive effect on the focus on fraud in the audit, improving the awareness of audit team members and communication on this topic with the client. Also, communication and reporting lead to more attention to fraud by the entities' leadership and those charged with governance.

We are currently evaluating our experiences in practice with these requirements. The subject of this evaluation is also transparency about findings in auditor's reports. This evaluation is planned to be completed by the end of this year.

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):

Positive remark:

In case of audits of financial statements of listed and public interest entities we support enclosing key audit matters relating to fraud risks when appropriate.

Constructive critical remarks:

In the Netherlands, for statutory audits, we have introduced a mandatory section on the audit approach to fraud risks as of reporting periods beginning on or after 15 December 2021. This section is not included in the Key Audit Matters section but in a separate section, similar to the mandatory section going concern audit approach. This section is to be tailored to the specific entity and may include:

- identified fraud risks;
- reference to disclosures in the financial statements, if any;
- an overview of the audit procedures performed to address the identified fraud risks;
- indication of the outcome of the performed procedures;
- major observations relating to the matter.

We have already evaluated practices and experience in auditor's reports for reporting periods 2021 and 2022. See answer 5.

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):

We understand the IAASB's consideration regarding this matter.

As a way of a compromise, we suggest the IAASB add a conforming amendment to ISA 330, par. 26 and par. A64, to refer to ED-240: '*The auditor shall conclude whether sufficient appropriate audit evidence has been obtained to conclude that the financial statements are free from material misstatement, whether due to fraud² or error.*'

² ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

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):

Matters related to fraud are relevant to audits of all entities, regardless of size or complexity. And fraud may occur at any entity. So yes, in the exposure draft IAASB has gathered all the instances of requirements that apply when certain conditions are met. The scalability depends on conditions. These conditions are regardless of the nature and size of the client.

However, ED-240 indicates control deficiencies as fraud risk factors. In the case of smaller entities, this may trigger a lot of communications of the auditor to management or TCWG.

The application material in paragraphs A58 and A88 deals with this aspect but does not take away our concerns that this will happen at smaller entities.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,³ ISA 220 (Revised),⁴ ISA 315 (Revised 2019), ISA 330,⁵ ISA 500,⁶ ISA 520,⁷ ISA 540 (Revised)⁸ and ISA 701⁹) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

Overall response: Agree, with comments below
Detailed comments (if any):

In our view the references indicate that ISA 240 integrates what the auditor is supposed to do, with focus on fraud. We expect conforming amendments to extant ISAs (250, 315, 700, 701) once the ED-240 had been finalized.

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁵ ISA 330, *The Auditor's Responses to Assessed Risks*

⁶ ISA 500, *Audit Evidence*

⁷ ISA 520, *Analytical Procedures*

⁸ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁹ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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):

Constructive critical remarks:

Regarding par. 70, we suggest the IAASB clarify how to document fraud risk factors.

We believe it's appropriate to add a requirement to par. 70 involving the proposed requirement in par. 30: if 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 should document the actions the auditor has taken as well as the outcomes.

In the examples after par. A104, the example regarding the presentation of profit before tax from continuing operations is not clear after minimizing tax.

Regarding par. A111, we suggest the IAASB clarify that the rebut is to be considered per type of revenue, transaction, or assertion. In this respect, the examples following the first one leave room for improper interpretation. Moreover, the fourth example will maintain the extant rebut regarding financial institutions' revenues.

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 expect no translation issues, as the wording in this ED-240 appears to be straightforward.

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 support the proposed timeline.