

04 JUN 2024

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, 10017 USA

**Dear Colleagues**

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the effort of IAASB and welcomes this opportunity to comment on the IAASB's Exposure Draft (ED), 4/ 2023, "*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)*".

SOCPA's interest in this project comes from its continuous efforts to provide sufficient technical support to accounting professionals, and users of their professional services. Thus, SOCPA is supportive, in principle, of the IAASB's project on the ISA 240, which aims to protect the public interest, and respond to stakeholders' demands for high quality of audits that contribute to the efficiency of capital markets and financial stability. SOCPA believes that the proposed revisions in ED-240 generally serve the purpose of clarifying the role and responsibilities of the auditor for fraud in an audit of financial statements, promoting consistent behavior and facilitating effective fraud-related audit procedures, reinforcing the importance of the exercise of professional skepticism in fraud-related audit procedures, and enhancing the transparency on fraud-related procedures. However, certain concerns that could arise from emphasizing on the role and responsibilities of auditors for fraud in an audit of financial statements should be considered.

The full details of our responses to the questions included in the ED are attached in the Appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



**Dr. Ahmad Almeghames**

**SOCPA Chief Executive Officer**

## Appendix

**SOCPA Comments on Exposure Draft (ED), 2/ 2024, “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)”.**

### **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):**

SOCPA believes that the proposed revisions have introduced comprehensive explanations and illustrative examples (e.g. appendix 2) which can contribute to the clarity and understanding of the auditors’ role and responsibilities for fraud in an audit of financial statements. However, we think that such added materials raise the risk of narrowing the expectation gap at the expense of audit quality as the auditor is still providing reasonable assurance which involve certain inherent limitations. In some parts of the proposed revisions in the ED-ISA 240, the language seems rhetorically expanding the responsibility of the auditor for fraud. Although the ED-ISA 240 emphasizes on the reasonable assurance concept and its related inherent limitations (e.g. paras 9, 10 & 11), other parts of the proposed revisions raises the expectations, which could paint a mind image that the auditor should detect and publicly report every material misstatements due to fraud.

Arranging the responsibility of auditors for fraud in an audit of financial statements first in the order before the responsibility of the management and those charged with governance does not seem to align with the consistent approach used in the ISAs. For instance, in ISA 250, the management’s responsibility to ensure compliance of the entity’s operations with the relevant laws and regulations comes first before the auditor’s. Also, this approach can be seen in ISA 200 where the management’s responsibility for preparing the financial statements according to the applicable financial reporting framework (e.g. the “premise”) comes first in order before the discussion of auditors’ responsibilities. Therefore, we believe that this proposed shift to put auditors’ responsibilities first in order since they are the main users of the standards may generate unintended consequences on the understanding of auditors’ responsibilities for fraud in an audit of financial statements. It is more logical and consistent with the ISAs’ approach to have management’s responsibility for preventing and detecting fraud first in order before clarifying the auditor’s responsibility. This is important because it specifically goes in line with the “premise” of auditing standards that the management is the one responsible for preparing the financial

statements in accordance with the applicable financial reporting framework and in compliance with the relevant laws and regulations.

The responsibility for detecting and reporting fraud issues (illegal acts) exposes auditors to serious legal considerations, which have not been comprehensively clarified in the revisions in a way that can be practically implemented, for instance, the operational meaning of the “legal determinations” concept. Such proposed expansion of auditors’ responsibility, which can be comprehended from the revisions’ approach, may harm public’s confidence in the audits as the public would increasingly perceive auditors who do not report misstatements due to fraud as failing to fulfil their responsibilities. This risk can be seriously heightened in the time of corporate failures. Therefore, we think that auditors’ responsibility with regard to fraud detection and the legal considerations (including the idea of “legal determinations” while asking for more procedures relating to fraud risks) should be further illustrated taking into consideration the requirements of ISA 250. Accordingly, It can be difficult in practice to operationalize the idea that auditors are not responsible to detect (investigate) fraud issues, but at the same time they have a reasonability to assess the existence of fraud risks and report (in the audit report) such fraud matters, even if they do not find any material fraud issues. Thus, more specific examples and illustrations could help.

Although the proposed revisions provide beneficial clarifications regarding the risk assessment and audit procedures in relation to fraud risks which can enhance the understanding of the auditors’ responsibilities for fraud, we believe that there is still a need for adequate illustrations clearly define the limits of the auditors’ responsibilities. For instance, such heightened emphasis on the acknowledgement of fraud risks (including third party fraud; as described in A18-A20) stresses the significance for introducing more clarifications on “legal determinations” concept which auditors should be wary not to engage in. This is specifically important because when a fraud or suspected fraud matter is assessed, there would be always a discussion about the perpetrators of such acts as part of the risk assessment and the required responsive audit procedures. This may require auditors themselves to possess certain level of fraud investigation skills and knowledge considering the costs associated with the consultation process with legal and forensic investigation experts.

Although the proposed revisions in the ED-ISA 240 clarified the importance of considering the need to involve certain experts in order to help with assessing fraud related risks (e.g. A35), the emphasized idea to involve a forensic expert in the audit process as one of the procedures that auditor should consider to help understand and assess fraud related risks should be further illustrated with examples clarifying when to assess that there is a need whether from the beginning or throughout the audit engagement.

### **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):**

SOCPA supports the proposed revisions in ED-ISA 240 which add important clarifications to the importance of exercising and maintaining professional skepticism throughout the audit process and, in specific, while assessing fraud related risks. We also support the approach used in the proposed revisions in ED-ISA 240 to emphasize on the idea that “using automated tools and techniques does not replace the need to maintain professional skepticism and to exercise professional judgement...” (see A9). And we believe that this idea is important and should be enhanced throughout the other ISAs as well.

In the audit literature, there is a discussion about the type of position that auditors should embrace to exercise professional skepticism; whether they should assume the “presumption doubt” or “neutral doubt”. It has been acknowledged that usually the audit standards (ISA 240) covering the topic of auditors’ role and responsibilities for fraud in an audit of financial statements encourage auditors to embrace the “presumption doubt”. The proposed revisions in ED-ISA 240 encourage both; “neutral doubt” while approaching the audit evidence whether corroborating or contradicting the management, and “presumption doubt” when assessing the fraud risks related to revenue recognition (see, for instance, paras 41 and 43). We believe that the board should encourage in this standard, which focuses on fraud risks, auditors to embrace “presumption doubt” not only when they assess the risks related to revenue recognition, but also when they assess other different fraud risks (e.g. control override), and the audit evidence. While emphasizing on the “presumption doubt”, the standard should highlight that such stance/position should be embraced more when an auditor becomes aware of fraud risk factors. This dilemma whether to maintain a “presumptive” or “neutral” doubt while designing and conducting audit procedures in response to fraud risks should be clarified more in the drafting of the proposed revisions in a more consistent manner.

### *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):**

SOCPA believes that the proposed revisions in ED-ISA 240 have consistently built on the foundational requirements in ISA 315 (Revised 2019), and enhanced the understanding of underlying risk assessment concepts in relation to fraud through introducing extensive illustrative examples.

<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):**

SOCPA agrees that the proposed revisions in the ED-ISA 240 provide comprehensive illustrations which help address different circumstances that auditors might face. However, taking into consideration our comment on the first question, the proposed revisions in ED-ISA 240 introduce heavy burden on auditors' professional judgement in order to fulfil their role and responsibilities regarding the fraud risks. This heavy reliance on auditors' judgement may become a concern to the public who may perceive the emphasis on auditors' proposed expanded role and responsibilities in relation to fraud (including the reporting of material fraud issues in the audit report) as a major element in evaluating the quality of auditors' work. This may require further awareness and supplemental guidance to help navigate auditors' responsibility, including their exercise of professional judgment in the context of assessing and responding to fraud risks in an audit of financial statements.

*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):**

Although the proposed requirements in ED-ISA 240 enhance transparency, there is a high risk that this could expose auditors and the audit profession to unintended consequences. The proposed revisions in ED-ISA 240 emphasize on the idea that it is the responsibility of management and those charged with governance to prevent and detect fraud and maintain the compliance with the applicable laws and regulations. And the auditor should consider the risks of fraud or suspected fraud and assess their materiality and their impacts on the audit process, including whether to continue the audit engagement or not; and the proposed revisions in an acknowledgement of auditors' scope of expertise emphasized on consulting a legal counsel and other experts with relevant expertise. Accordingly, auditors' communication of such material fraud or fraud suspected issues to the appropriate level of management or those charged with governance, or



authoritative bodies (if applicable and aligned with the confidential principle) might be considered sufficient to serve the interest of the stakeholders. Disclosing such matter whether in a statement or under specific subheading in the audit report may result in unintended consequences including increasing the complexity of audit-client relationship in a harmful way, exposing auditors to unbearable liability risks, increasing the audit costs (audit fees), and blur the understanding of the auditor’s responsibility. For instance, the application material (A173) stressed on the idea that auditors should “avoid standardized or generic” language when describing material fraud issues as a Key Audit Matter (KAM), and encouraged more reliance on describing the specifics in order to make the information more relevant to the indented users. This may eventually result in unintended legal consequences. At the same time, it is left to auditors to obtain legal consulting regarding their approach to assess, respond and report with regard to fraud risks. Therefore, more illustrations are needed to consider and explain the expanded responsibilities associated with such reporting requirements. For instance, the proposed application material (A176) presumes that an auditor of a listed entity would normally be expected to consider at least one KAM related to fraud.

Taking into consideration our comment on question number 4, the proposed application material (A178) explains that an auditor should utilize professional judgment to assess whether including a statement about fraud issues in the audit report would outweigh the public interest benefits or not. This idea might be difficult to be operationalized in practice, more illustration may help.

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):**

Taking into consideration our comment on the previous question, the level of awareness of the auditors’ responsibilities in the entities that are other than PIEs (in specific small entities) and their stakeholders (e.g. owners) is usually less if compared to those of PIEs’ stakeholders. Therefore, the risks and concerns that we highlighted in our comments on the previous questions become more significant. Therefore, we think that extending and complicating the audit report with such proposed additional information in relation to fraud may highly result in unintended consequences.

*Considering a Separate Stand-back Requirement in ED-240*

7. Do you agree with the IAASB’s decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

(See EM, Section 1-J, paragraphs 107–109)

**Overall response:** Agree (with no further comments)

**Detailed comments (if any):**

#### Scalability

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

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

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

**Detailed comments (if any):**

The proposed revisions in ED-ISA 240 included an appropriate consideration of scalability. However, the repeated reference in the proposed revisions to “Less Complex Entities” (LCE) might create misconception when the ISA for LCE (which is a standalone standard) is applicable in certain jurisdictions. This matter may need further consideration and illustration. For instance, a compelling question may rise about whether those auditors applying ISA for LCE should also consider the guidance provided in this standard after revision (e.g. A88) or not.

#### 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 comments below

**Detailed comments (if any):**

<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*

SOCPA believes that the proposed revisions in ED-ISA 240 have promoted the integration between the ISAs. However, a better linkage to ISA 610 may help enhancing the discussion related to the assessment of fraud risks (including the procedures to understand the entity’s internal control systems and environment). Since internal auditors bear professional duties in relation to fraud risks, enhanced cooperation with internal auditors may serve the objectives that the proposed revisions in ED-ISA 240 are seeking to accomplish. For instance, the application material (A57) introduces the effectiveness of internal audit function as a mitigating factor for the fraud risk. This should be considered more in the standard through enhanced linkage to ISA 610. Although there is a reference to ISA 610 in the proposed application material A94, we believe that linkage to ISA 610 could be enhanced more in the proposed revisions.

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

**Detailed comments (if any):**

SOCPA believes that the language used in the proposed revisions in ED-ISA 240 is generally clear. However, we believe that the term “legal determinations” may create some challenges in conveying the same meaning in Arabic language.

### *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:** [No response](#)

**Detailed comments (if any)**