

Proposed ISA 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* – Summary of Significant Deliberations and Changes

This paper summarizes the Fraud Task Force’s (Fraud TF) significant deliberations and changes, where applicable, that have been made to proposed ISA 240 (Revised)¹ since the June 2023 IAASB meeting, as reflected in the marked draft in **Agenda Item 3–A**. In certain instances, this Agenda Item may include an explanation of why a change was not made based on feedback received. Unless otherwise indicated, references to “paragraph(s)” within this Agenda Item refers to paragraph(s) within proposed ISA 240 (Revised).

Icon(s):



Indicates that a conforming or consequential amendment is being proposed to the IAASB’s pronouncements as reflected in **Agenda Item 3–C**.

Reference	Significant Changes and the Rationale for Those Changes
Introduction	
Paragraph 1	<p><i>Introductory Material</i></p> <ul style="list-style-type: none"> The Fraud TF reaffirmed the addition of the phrase “and the implications for the auditor’s report” to highlight that proposed ISA 240 (Revised) addresses the execution of audit procedures relating to fraud as well as the reporting thereon. The Fraud TF believes that this provides appropriate clarity as to the intent of proposed ISA 240 (Revised) and that any edits would result in inconsistencies in the drafting approach with other ISAs e.g., paragraph 1 of proposed ISA 570 (Revised 202X), <i>Going Concern</i>.
Paragraph 2	<p><i>Introductory Material</i></p> <ul style="list-style-type: none"> The paragraph was enhanced to focus on the fraud lens when addressing the auditor’s responsibilities in the context of proposed ISA 240 (Revised). Further, throughout the ISAs there are certain requirements that are specific to addressing

¹ Proposed International Standard on Auditing (ISA) 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Reference	Significant Changes and the Rationale for Those Changes
	<p>fraud in an audit of financial statements e.g., paragraph 23(a)(i) of ISA 550.² As such the Fraud TF believes it is appropriate to reference “this, and other relevant, ISAs,” and as such determined to retain the phrase.</p> <ul style="list-style-type: none"> • The Fraud TF does not believe it is necessary to include “or error” and further does not believe that by using the fraud lens it is inadvertently creating a separate risk assessment for fraud in an audit of the financial statements. The Fraud TF reaffirmed the approach taken. • The Fraud TF also does not believe it is necessary to add wording to the effect that the auditor’s responsibilities to communicate and report about matters related to fraud are as “required by this ISA.” The Fraud TF is of the view that since the communication and reporting requirements refers to, or expands on, ISA 260 (Revised)³ and ISA 701,⁴ respectively, that this clarification is not necessarily appropriate.
Paragraph 5	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A5: The 4th bullet was clarified to reflect that the omission and obscuring of disclosures are misstatements. • Paragraph A6: The lead-in was updated to reflect that misappropriation of assets can also involve third parties. The 2nd bullet was revised to include an example of the theft of digital assets which is reflective of a more current example of fraud impacting the financial statements. The Fraud TF considered whether there is a difference in meaning between “stealing” and “theft” and determined that to distinguish between the terms may inadvertently overcomplicate what is a common understanding of the words.
Paragraph 6	<p><i>Introductory Material</i></p> <ul style="list-style-type: none"> • The Fraud TF reaffirmed that it was appropriate to retain the phrase “for purposes of the ISAs,” and not use “for purposes of <u>this</u> ISA” as there are other ISAs where the auditor performs procedures to address the risk(s) of material misstatement of the financial statements due to fraud.

² ISA 550, *Related Parties*

³ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁴ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraph 7</p>	<p><i>Introductory Material and Application Material</i></p> <ul style="list-style-type: none"> Paragraphs 7 and A10: The proposed ISA requires the auditor to perform additional work when the auditor identifies fraud or suspected fraud. The Fraud TF clarified in paragraph 7 and A10 what is meant by fraud or suspected fraud that is identified by the auditor. The manner in which information about fraud or suspected is identified by the auditor may vary. As described in paragraph 7, the auditor may identify fraud or suspected fraud while performing audit procedures or when an allegation of fraud comes to the auditor’s attention. In accordance with paragraph A10, any allegation of fraud that comes to the auditor’s attention is treated as suspected fraud by the auditor. Accordingly, most of the references to “alleged fraud” or “allegations of fraud” became redundant and were removed in the proposed standard (except where it was appropriate to retain them as explained on a case-by-case basis in this document). Paragraph A7: The Fraud TF enhanced the application material to clarify that the existence of a fraud risk factor does not in and of itself indicate the existence of a fraud or suspected fraud or a risk of material misstatement due to fraud. In the example, the auditor identified and assessed a risk of material misstatement due to fraud based on the fraud risk factor identified and the audit evidence obtained from the risk assessment procedures performed. Paragraphs A7 and A8: Edits were made to clarify that paragraph A7 deals with audit evidence obtained when performing risk assessment procedures and further audit procedures in accordance with this ISA. In contrast, paragraph A8 highlights an instance where audit procedures are being performed in accordance with an “other ISA.”
<p>Paragraph 8</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A11(a): The Fraud TF reverted to the use of senior management as in extant ISA 240,⁵ in order to eliminate the unnecessary use of the phrase “key member of management.” This is consistent with the focus on “senior management” throughout the ISAs. Further, the Fraud TF believes that instances where senior management is involved is ordinarily an indication that the fraud is qualitatively material. Paragraph A11(b): The application material was simplified to remove the reference to specific laws or regulations, as well to ISA 250 (Revised).⁶ The Fraud TF believes that paragraph 13 and the related application material is sufficient to address non-compliance with laws and regulations in the <i>Scope</i> section.

⁵ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁶ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraphs 9–10</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> The Fraud TF discussed the need to include additional application material leveraging paragraph 49 of ISA 200⁷ in order to further describe the practical and legal limitations on the auditor’s ability to obtain audit evidence. The Fraud TF noted that such application material was not included in extant ISA 240. Given that the guidance already exists in ISA 200, the Fraud TF determined not to further describe the inherent limitations.
<p>Paragraphs 12–12B</p>	<p><i>Introductory Material</i></p> <ul style="list-style-type: none"> Paragraph 12: Enhancements were made to this paragraph by the Fraud TF, including leveraging the wording in paragraph 8 of ISA 250 (Revised) and edits to align this Key Concept more closely with paragraph 14 of ISA 220 (Revised).⁸ The paragraph was then split into three separate paragraphs to enhance its readability. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A13: Feedback was received that application material should be supplemented to emphasize the impact of “sufficient time” at the engagement level. The Fraud TF discussed this input and noted that “sufficient time” in ISQM 1 is addressed under the resources component, and the application material is specific to the governance and leadership component. No changes are proposed. Paragraph A14: The draft presented to the Board in June 2023, included new application material that refers to relevant guidance on professional judgment in ISQM 1,⁹ including the importance of having an inquiring mind. The Fraud TF believes that the inclusion of application material addressing the overall commitment of the firm to a system of quality management is important as it underpins and supports the engagement partner and the engagement team in making decisions that affect audit quality at the engagement level.
<p>Paragraph 13</p>	<p><i>Introductory Material</i></p>

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁸ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audit or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • Paragraph 13 (lead-in): The Fraud TF believes it is appropriate to specifically articulate that in all instances when fraud has occurred, then it constitutes an instance of non-compliance with laws and regulations. Previously this notion was implicit in proposed ISA 240 (Revised).  – Agenda Item 3–C includes a consequential amendment to paragraph A6 of ISA 250 (Revised) to resolve an inconsistency resulting from the aforementioned change to paragraph 13 (lead-in). In doing so the coherence with the overall body of standards is maintained so that proposed ISA 240 (Revised) and ISA 250 (Revised) can be applied together without conflict. • Paragraph 13(a): In responding to feedback received, the Fraud TF considered whether the auditor should be required to “evaluate” management’s response to non-compliance with laws or regulations (i.e., or to “assess” that response). The Fraud TF noted that the use of the verb “assess” is consistent with paragraph 9 of ISA 250 (Revised) and the Fraud TF believes that changing the verb to “evaluate” is beyond the remit of the fraud project. No changes are proposed. • Paragraph 13(b): Feedback was received that application material should be added to clarify that there may be limitations on reporting to appropriate authorities outside the entity. The Fraud TF does not believe it is necessary to do so as paragraph 74 and the related application material specifically address these reporting responsibilities. No changes are proposed.
Definitions	
Paragraph 17(a)	<p>Relationship of Fraud with Corruption, Bribery and Money Laundering</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A17: The Fraud TF clarified that “<u>as with fraud</u>, corruption, bribery and money laundering are forms of illegal or unethical acts” and deleted the phrase “deception to obtain an unjust or illegal advantage.” As these are distinct acts under the law, regulation, or relevant ethical requirements, it would not be appropriate to provide guidance under the standard suggesting that corruption, bribery and money laundering are unequivocally fraudulent in nature, and rather may only be associated with fraudulent acts (i.e., may be carried out to facilitate or conceal fraud). • Paragraph A17, boxed examples: The Fraud TF replaced the previous example on corruption with a simpler, ‘real-life’ example on bid rigging.

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • Paragraph A18: The Fraud TF clarified that “<u>as with fraud</u>, the auditor does not make legal determinations of whether acts of corruption, bribery, and money laundering have actually occurred.” • Paragraph A19: The Fraud TF retained this paragraph as it enhances the linkage to ISA 250 (Revised) and reminds the auditor as to other responsibilities that exist within the suite of ISAs. The Fraud TF also considered the placement of this paragraph and believes that the focus should firstly be on explaining the concepts of corruption, bribery or money laundering in the context of fraud, and then highlighting other relevant ISAs. <p>Third-Party Fraud <i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A20: The Fraud TF clarified that fraud as defined in paragraph 17(a) can include an intentional act by a third party and therefore is subject to the same required work effort in paragraphs 54–63. • Paragraph A20, boxed examples: The Fraud TF further enhanced the examples of third-party fraud by: <ul style="list-style-type: none"> ○ Providing a specific example of an opportunity for the third-party service provider to engage in fraudulent activity affecting the entity in the 1st bullet point. ○ Adding a footnote in the 2nd bullet point to “cybersecurity” that links to the robust guidance provided in ISA 315 (Revised 2019)¹⁰ on cybersecurity, including compliance with relevant data protection legislation. ○ Replacing “steal” with “theft,” and adding examples, of customer-related intangible assets in the 2nd bullet point.
<p>Paragraph 17(b)</p>	<p>Fraud Risk Factors <i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraphs A21: The Fraud TF deleted the application material in paragraph A21 as it substantially repeats material already covered in paragraph A22. • Paragraph A22A: The Fraud TF reinstated as application material to the definition of fraud risk factors the hanging paragraph previously in paragraph A28A in Agenda Item 5–B of the December 2022 meeting material.

¹⁰ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Reference	Significant Changes and the Rationale for Those Changes
Requirements	
Professional Skepticism	
Paragraph 18	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Paragraphs 18 and 20: To respond to feedback received, the Fraud TF considered whether to combine these two requirements. The Fraud TF reaffirmed their decision not to combine the requirements because the requirements are different and each is intended to solicit a different response from the auditor: <ul style="list-style-type: none"> ○ Paragraph 18 – the reference to ISA 200 and the requirement to maintain professional skepticism throughout the audit is critical because it underpins the auditor’s work effort as it relates to fraud in an audit of the financial statements. Building in professional skepticism from the outset is key. This requirement goes to the overall mindset of the auditor when performing audit procedures. ○ Paragraph 20 – the focus in this requirement is on remaining alert for fraud or suspected fraud. The objective of this requirement is for the auditor to have a heightened sense of awareness of information that may lead to the identification of fraud or suspected fraud and the various sources <u>where</u> such information may originate. In addition, the application material explains that there are times during the audit engagement <u>when</u> remaining alert is especially critical, including at the end of the audit when there are time pressures to complete the audit engagement. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A24: The Fraud TF is proposing to delete this paragraph because it undermines the application material in the preceding paragraph (i.e., A23). Specifically, the auditor maintains professional skepticism, regardless of past experience, through the ongoing questioning of whether the information obtained suggests that a material misstatement due to fraud may exist. • Paragraphs A25–A26: These paragraphs were combined and redrafted based on feedback received from the Board and the Professional Skepticism Consultation Group. New application material was added to include a reference to the application material in ISA 220 (Revised) (i.e., paragraphs A34–A36) about impediments at the engagement level to the exercise of professional skepticism and actions that may be taken to mitigate the impediments. Examples were also developed to illustrate these concepts with a particular focus on fraud (i.e., a fraud lens).
Paragraph 19	<i>Requirement</i>

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> Based on feedback received, the Fraud TF considered whether the action by the auditor should be to “investigate further” (i.e., status quo based on extant ISA 240) or to “determine what modifications or additions to audit procedures are necessary to resolve the matter”. The Fraud TF decided to retain the reference to “investigate further” because it is broader “than resolving the matter” and, specifically, “identifying conditions” may cause the auditor to call into question the perceived authenticity of other documents or records obtained during the audit. Accordingly, no changes are proposed to this requirement. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A27: The Fraud TF considered feedback received from some Board members that the list of examples had inadvertently created an expectation for auditors to actively seek out the conditions listed when complying with the requirement in paragraph 19. The Fraud TF decided to retain the list because it was clear enough to Fraud TF members that users of the proposed standard would consider the list to be examples of “conditions” and not “requirements.” Further, some Fraud TF members had heard positive feedback from practitioners that the list of examples is useful guidance, particularly for smaller firms with less developed methodology manuals. Paragraph A28 and A28A: The Fraud TF proposes to combine these paragraphs. Regarding paragraph A28, the Fraud TF heard concerns from some Board members about the proposed use case of automated tools and techniques presented in the proposed standard at the June 2023 Board meeting. To respond to those concerns, the Fraud TF proposes a new use case for the automated tool or technique that is more consistent with the extant requirements and involves using the tool or technique to evaluate the authenticity of a record or document only after conditions have been identified. That use case has been integrated as a “possible additional procedure” in paragraph A28A when conditions have been identified (e.g., conditions that indicate that a record is not authentic) as well as discussing concerns with management and those charged with governance. <p> – Agenda Item 3–C includes a proposed consequential amendment to paragraph A24 of ISA 200 to delete the lead-in sentence that states: “the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary”. The deletion is consistent with the deletion of a similar statement in paragraph 19, “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine”, previously discussed at the June 2023 meeting.</p>
Paragraph 20	<i>Application Material</i>

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • Paragraphs A29, A30 and Appendix 3: <ul style="list-style-type: none"> ○ Paragraph A29: The Fraud TF clarified that the examples listed are possible <u>sources</u> of information about instances of fraud or suspected fraud. ○ Paragraph A29A: This paragraph was moved. The Fraud TF determined that this was best placed in the Fraud and Suspected Fraud section of the standard and moved to paragraph A155. • Paragraph A30: The Fraud TF proposes to move the examples in this paragraph of the application material to Appendix 3 to reduce duplication and potentially inconsistencies in the standard. • Paragraphs A25(b), A30 and A30A: The Fraud TF proposes to eliminate some duplication in the standard dealing with references to the heightened risk of fraud “near the end of the audit” by deleting those references in paragraphs A25(b), A30A, and A30B.
Paragraph 21	<p><i>Essential Material</i></p> <ul style="list-style-type: none"> • The Fraud TF proposes to retain this paragraph as “essential material” because it provides a clear signpost upfront and in close proximity of the key concepts in the Introduction section and the requirements relating to professional skepticism to direct auditors to the Fraud and Suspected Fraud section in paragraphs 54–63. The Fraud TF also added a new heading to differentiate the essential material from the Professional Skepticism section.

Reference	Significant Changes and the Rationale for Those Changes
Engagement Resources	
Paragraph 22	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A30C: The Fraud TF moved the application material previously in paragraph A34 in Agenda Item 3 –G of the June 2023 meeting material to paragraph A30C to improve the overall flow of the standard. Paragraph A31: The Fraud TF clarified that the "involvement of individuals with specialized skills or knowledge <u>such as forensic and information technology (IT) experts may vary based on the nature and circumstances of the audit engagement.</u>" This guidance further supports the exercise of professional judgment on 'when' the auditor may need to use forensic skills in performing the audit engagement. Paragraph A31, boxed examples: The Fraud TF deleted the example on "securities offering documents such as prospectuses" in the 3rd bullet point, as these are outside the scope of an audit of financial statements.
Engagement Performance	
Paragraph 23	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF reaffirmed its decision to align the placement of the extant requirement in paragraph 30(a) of ISA 240 addressing the <u>supervision</u> of personnel with the existing layout in ISA 220 (Revised) as it relates to engagement performance. This approach is consistent with the layout in recently released ISAs (e.g., ISA 600 (Revised)¹¹). Further, this approach emphasizes the fact that proposed ISA 240 (Revised) refers to, or expands on, the application of other relevant ISAs, in particular ISA 220 (Revised) as noted in paragraph 1 of proposed ISA 240 (Revised). Based on the Fraud TF deliberations, it was concluded that paragraph 23 should not build on the overarching requirement in paragraph 29 of ISA 220 (Revised). Instead, paragraph 23 should expand on paragraph 30(b) of ISA 220 (Revised). In doing so, the Fraud TF was able to better demonstrate the inter-connectivity of the two requirements in paragraphs 23 and 24. Further, the Fraud TF considered combining the two paragraphs, however the Fraud TF does not believe it appropriate to do so as this would likely result in an overly complex requirement and result in a lack of understandability. The Fraud TF is of the view that the requirement as drafted is fraud-specific, and that no additional <i>fraud lens</i> is necessary.

¹¹ ISA 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

Reference	Significant Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraphs A35: The Fraud TF did not revise the application material based on the feedback received as it is of the view that assigning additional individuals to the engagement team with specialized skills or knowledge is different from assigning individuals with more experience and as such the application material is not duplicative in that regard. Individuals with more experience may not necessarily have specialized skills or knowledge, rather these may be individuals who have been assigned to audit engagements in the same industry with similar assessed risks of material misstatement due to fraud and may be able to bring their insights and experience to the engagement team. Following the CUSP DPG, the Fraud TF restructured this paragraph using a list to avoid long sentences. Paragraph A36: This paragraph was deleted because, although it was sourced from extant paragraph A36 of ISA 240, the Fraud TF was of the view that it is duplicative of the requirement now that the lead-in to paragraph 23 has been revised.
<p>Paragraph 24</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 24 (lead-in): The Fraud TF is of the view that the requirement is fraud-specific, and that no additional <i>fraud lens</i> is necessary. Further, as noted above, the engagement partner makes the determination in paragraph 23 while also considering the matters referenced in paragraph 24 and the impact they may have on the nature and circumstances of the audit engagement. Paragraph 24(a): The Fraud TF deleted the phrase “that have subsequently been identified” and the word “additional” as it agrees that fraud risk factors may be identified throughout the audit. Paragraph 24(b): The reference to “alleged fraud” was removed as the lead-in sentence refers to those matters identified [by the auditor] during the course of the audit engagement. As previously explained in paragraph A10, allegations of fraud that are brought to the auditor’s attention by another party, whether internal or external to the entity, are treated as suspected fraud by the auditor. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A37: The Fraud TF received feedback that the example is overly simplistic and not necessary in light of the guidance provided in ISA 220 (Revised). The Fraud TF concurred and deleted the application material as it was deemed not necessary to support the application of the requirement in paragraph 24.

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> Paragraphs A38–A39: The Fraud TF received feedback that paragraph A38 did not have the necessary <i>fraud lens</i>. The Fraud TF believes that it is essential to retain this application material as this underpins the importance of increasing the extent and frequency of the engagement team discussions. The text in paragraph A39 was repurposed as examples and merged with paragraph A38 in order to provide the appropriate fraud context.
Ongoing Nature of Communications with Management and Those Charged with Governance	
<p>Paragraph 25</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF reaffirmed that the overarching communication requirement be placed at the beginning of the standard to reinforce that such communications are ongoing and take place throughout the audit engagement. This placement is consistent with the June 2022 minutes where the Board directed the Fraud TF to have the requirement in paragraph 40A earlier in the standard. <p>Note: Paragraph 40A in the June 2022 IAASB meeting materials is the equivalent of paragraph 25 in the September 2023 IAASB meeting materials.</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A42, boxed examples: The Fraud TF deleted the phrase “on a timely basis” from the 1st sentence of the penultimate bullet point. It is always good to hold discussions with management and TCWG on a timely basis. Deleting “on a timely basis” may avoid the unintended consequences of providing guidance that indicates otherwise. Paragraph A43, subheading: The Fraud TF changed the subheading to paragraph A43 to “Assigning Appropriate Member(s) within the Engagement Team <u>with Responsibility to Communicate</u> with Management and Those Charged with Governance.” Paragraph A43: The Fraud TF added “Due to the nature and sensitivity of fraud, particularly those involving senior management...” at the beginning of the 2nd sentence of paragraph A43 to enhance the fraud lens when assigning appropriate member(s) within the engagement team with responsibility to communicate with management and TCWG. Paragraph A44: The Fraud TF deleted “including independence” from the end of the 1st sentence of paragraph A44. Its relevance was unclear when communicating with management and TCWG matters related to fraud. The Fraud TF also

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	<p>moved the substantive guidance previously in the footnote to the body of paragraph A44, which is intended to promote adhering to relevant ethical requirements that may be applicable when an auditor is dealing with matters related to fraud.</p>
<p>Risk Assessment Procedures and Related Activities</p>	
<p>Paragraph 26</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF updated the reference of the required risk assessment procedures to include paragraphs 27 to 36.
<p>Paragraph 27</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A47: The Fraud TF clarified that “information from other sources” are those referred to in paragraphs 15–16 of ISA 315 (Revised 2019). Paragraph A48: The Fraud TF added a reference to ISA 510¹² to clarify that the guidance in paragraph A48 was provided in the context of conducting an initial audit engagement.
<p>Paragraph 28</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF closely aligned paragraph 28 to the relevant requirement in paragraph 14 of ISA 540 (Revised)¹³ by deleting “significant” from “previous significant accounting estimates” and by adding taking into account “the characteristics of the accounting estimates in determining the nature and extent of that review.” <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A48A: The Fraud TF added back the application material (i.e., previously paragraph A47 in Agenda Item 5–C of the December 2022 meeting material) explaining the purpose of a retrospective review in proposed ISA 240 (Revised). This illustrates how the requirement on retrospective review in paragraph 28 expands on the requirement in paragraph 14 of ISA 540 (Revised) (i.e., requirement addressing retrospective reviews).
<p>Paragraph 29</p>	<p><i>Requirement</i></p>

¹² ISA 510, *Initial Audit Engagements—Opening Balances*

¹³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • The Fraud TF gave due consideration to potentially enhancing the requirement to reflect that there may be additional engagement team discussions. However, the Fraud TF believes that this aspect is more appropriately addressed in the Engagement Performance section of the proposed standard – specially paragraphs 23 and 24. Application material was added to address the situation where the nature and circumstances of the audit engagement may affect the engagement partner’s approach to direction, supervision and review, and that this may include increasing the extent and frequency of the engagement team discussions (see paragraph A38). • Paragraph 29 (lead-in): The Fraud TF revisited the layout of the requirement and noted that the lead-in to paragraph 29 aligns with paragraph 17 of ISA 315 (Revised 2019) and is applicable to all the sub-bullets immediately following. No change was proposed. • Paragraph 29(a): The Fraud TF enhanced the requirement to: <ul style="list-style-type: none"> ○ Paragraph 29(a)(i) – Place an emphasis on having an exchange of ideas about the entity’s culture, management’s commitment to integrity and ethical values, and the related oversight by TCWG in response to direction received from a Board member. In doing so, the Fraud TF considered the following: <ul style="list-style-type: none"> ▪ Paragraph 3, which highlights that management has a responsibility to place a strong emphasis on fraud prevention. This involves a commitment to creating and maintaining a culture of honesty and ethical behavior that can be reinforced by active oversight by TCWG. ▪ Paragraph 31(a), which requires the auditor to obtain an understanding of the entity’s system of internal control, specifically as it relates to entity’s culture and management’s commitment to integrity and ethical values. <p>Given the prominence and importance of the tone at the top throughout the proposed standard, the Fraud TF is supportive of the requirement being added to focus the attention of the auditor on the behavior of management and TCWG.</p> ○ Paragraph 29(a)(ii) a – Include a reference to “pressures” which aligns more closely with paragraphs 17(b) and A2. Further, “third parties” was added to further align with all those parties referenced in the definition of fraud in paragraph 17(a), as well as with the parties referenced in the application material (i.e., the 1st bullet of paragraph A50). • Paragraph 29(b): The Fraud TF discussed the following matters with respect to this paragraph: <ul style="list-style-type: none"> ○ A focus of the engagement team discussion on fraud or suspected fraud — The Fraud TF was of the view that

Reference	Significant Changes and the Rationale for Those Changes
	<p>suspected fraud may also impact the overall strategy and audit plan for the audit engagement.</p> <p>Paragraph 24 addresses matters that the engagement partner considers that may impact the nature, timing and extent of the direction and supervision of the engagement team and the review of their work. This includes fraud or suspected fraud identified by the auditor during the course of the audit engagement. In such instances, the auditor may respond by increasing the extent and frequency of the engagement team discussions (see paragraph A38).</p> <ul style="list-style-type: none"> ○ Use of “consideration” as the action verb – The Fraud TF believes its usage is appropriate in the context of the engagement team discussion. ○ CUSP DPG – The requirement was further refined for conciseness and readability. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A49A: The Fraud TF reaffirmed its perspective that one of the important aspects of involving experts with specialized skills or knowledge is to elevate the quality of the discussion taking place and is of particular importance when performing work related to fraud. No change is proposed. • Paragraph A49B: Upon reflection, the Fraud TF does not believe it is necessary to retain this paragraph as the use of a consultation resource is adequately addressed in ISA 220 (Revised). • Paragraph A49C: The Fraud TF added application material to highlight that the exchange of ideas may provide an initial perspective and provide guidance as to what aspects the members of the engagement team may reference when considering the “tone at the top” (i.e., actions and behaviors of management and TCWG). • Paragraph A50: The Fraud TF deleted the 1st sentence in paragraph A50 as it is already captured within the requirement in paragraph 29(a)(ii). • Paragraph A51: <ul style="list-style-type: none"> ○ The Fraud TF reaffirmed the approach to focus on certain matters that may be included in the exchange of ideas and not include a lengthy list that may unintentionally be used as a checklist. ○ The Fraud TF discussed the feedback received as it relates to the 1st bullet and the interactions among management and noted that this is an illustration of an exchange of ideas that <u>may</u> occur. The Fraud TF determined to retain the wording as drafted.

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> ○ The remaining bullets were further refined based on feedback received, including eliminating the duplication of examples within the proposed standard, and focusing on the incentives and pressures that may indicate instances of fraud. ● Paragraph A52: The Fraud TF discussed the following matters: <ul style="list-style-type: none"> ○ 1st bullet: The application material was not elevated to a requirement, as the Fraud TF believes that requirement in paragraph 18 to maintain professional skepticism throughout the audit is sufficient and encompasses the necessity to have a “questioning mind.” However, the Fraud TF believes, given the importance of professional skepticism, the engagement partner may want to especially remind those participating in the engagement team discussion as to the importance of maintaining a questioning mind. ○ 2nd bullet: The Fraud TF believes that it is important to retain the reminder that performing work to address fraud in the audit of financial statements is in the public interest. ○ 3rd bullet: The Fraud TF did not elevate this application material to a requirement because the engagement team discussion is part of the related activities that the auditor performs when identifying and assessing the risks of material misstatement due to fraud. Considerations of the audit procedures to be selected to <u>respond</u> appropriately to the susceptibility of the entity’s financial statement to material misstatement due to fraud is not the primary focus of the engagement team discussion.

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraphs 29A–29C</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • To improve the overall flow of the standard, the Fraud TF moved and renumbered the requirements previously in paragraphs 37–39 under “Identifying and Assessing the Risks of Material Misstatement Due to Fraud” in Agenda Item 3–G of the June 2023 meeting material to “Risk Assessment Procedures and Related Activities” in: <ul style="list-style-type: none"> ○ Paragraph 29A for “Inquiries of Management and Inconsistent Responses.” ○ Paragraph 29B for “Analytical Procedures Performed and Unusual or Unexpected Relationships Identified.” ○ Paragraph 29C for “Evaluation of Fraud Risk Factors.” • The Fraud TF noted that risk assessment procedures in accordance with paragraph 14 of ISA 315 (Revised 2019) include inquiries, analytical procedures, observation and inspection. Therefore, the relocation of these requirements previously presented under “Identifying and Assessing the Risks of Material Misstatement Due to Fraud” to “Risk Assessment Procedures and Related Activities” further aligns the structure and layout of proposed ISA 240 (Revised) to ISA 315 (Revised 2019). • The Fraud TF further noted that the extant requirement on “Evaluation of Fraud Risk Factors” in paragraph 25 of ISA 240 is also presented as part of “Risk Assessment Procedures and Related Activities,” which further supports its relocation to “Risk Assessment Procedures and Related Activities” in proposed ISA 240 (Revised). <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraphs A52A–A52E: Consequently, the Fraud TF also moved and renumbered the relevant application material previously in paragraphs A96–A100 in Agenda Item 3–G of the June 2023 meeting material to paragraphs A52A–A52E.
<p>Paragraph 29A</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • The Fraud TF noted that proposed ISA 240 (Revised) currently does not include a requirement to make specific inquiries of individuals external to the entity and therefore, concluded that the requirement in paragraph 29A does not need to explicitly address inquiries of individuals external to the entity. • In exploring how to apply the fraud lens, the Fraud TF considered linking the requirement in paragraph 29A (previously paragraph 38) to the inquiries of individuals within the internal audit function, management, TCWG, or others within the

Reference	Significant Changes and the Rationale for Those Changes
	<p>entity in accordance with paragraphs 31(c)–(d), 32(b) and 33(b) but concluded not to do so. Doing so may inadvertently limit the scope of the requirement in paragraph 29A to the inconsistent responses that the auditor may identify from the required inquiries in paragraphs 31(c)–(d), 32(b) and 33(b).</p>
<p>Paragraph 29B</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A52A: The Fraud TF streamlined the examples of fluctuations or relationships when performing analytical procedures. The Fraud TF deleted parts of the examples where there was no sufficient basis for the auditor to conclude that the assertions indicate risks of material misstatement due to fraud.
<p>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control</p>	
<p>Paragraph 30</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • The Fraud TF aligned paragraph 30(a)(iii) with the construct in paragraph A76 of ISA 315 (Revised 2019) in referring to “performance measures.” <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A57: The Fraud TF moved the text previously in the boxed example to the lead-in of paragraph A57. To be consistent with the language used in paragraph A17 when referring to corruption, bribery and money laundering, the Fraud TF: <ul style="list-style-type: none"> ○ Deleted the word “dishonest” because dishonesty is of itself an unethical act. ○ Replaced the phrase “transactions or activities” with the word “acts.” • Paragraph A57, boxed examples: The Fraud TF added fraud risk factors associated with geographic locations or jurisdictions that may be susceptible to illegal or unethical acts (e.g., weak legal and regulatory framework). • Paragraph A59, boxed example: The Fraud TF clarified that automated tools and techniques, such as analysis by disaggregated data “may be used by the auditor to <u>identify inconsistencies or anomalies in the data used</u> in performance measures.”
<p>Paragraph 31</p>	<p><i>Requirement</i></p>

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • Paragraph 31(a): In applying the fraud lens to the requirements, the Fraud TF added the phrase “with respect to the prevention and detection of fraud.” • Paragraph 31(d)(i): As described above (refer to explanation for paragraph 7 and A10), the references to allegations of fraud have been deleted throughout the proposed standard because they are treated as suspected fraud after they have come to the auditor’s attention. However, the reference to allegations of fraud remains appropriate here because the requirement is about making inquiries of TCWG about whether they are aware of allegations of fraud affecting the entity. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A64: The Fraud TF streamlined the example in the 1st bullet point and enhanced the example relating to “fraud policy” in the 2nd bullet point of paragraph A64.
Paragraph 32	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Paragraph 32(b)(i): The reference to “allegations of fraud” is appropriate here for the same reason described above for Paragraph 31(d)(i). <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A80, boxed examples: The Fraud TF added emphasis on change management controls in the IT environment. • Paragraph A81: The Fraud TF deleted the last sentence of paragraph A81 and instead, updated the relevant footnote to include a reference to paragraph 23 (that captures both 23(a) and 23(b)) of ISA 315 (Revised 2019).
Paragraph 33	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Paragraph 33(a): The Fraud TF changed the beginning of the requirement in paragraph 33(a) from “understand” to “obtain an understanding” to be consistent with the language used in paragraphs 30, 31(a), 32(a), 34 and 35. <p><i>Requirement and Application Material</i></p> <ul style="list-style-type: none"> • Paragraphs 33(b) and A88: The reference to “allegations of fraud” is appropriate here for the same reason described above for paragraph 31(d)(i).

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraph 34</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF added “recorded” in paragraph 34 to align the requirement with the language used in paragraph 25(a)(i)(a) of ISA 315 (Revised 2019) (i.e., how transactions are initiated, and how information about them is <u>recorded</u>, processed, corrected as necessary). <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A90: The Fraud TF clarified that obtaining an understanding of the population may assist the auditor in <u>designing and performing audit procedures over</u> journal entries and other adjustments in accordance with paragraphs 50(c) and 50(d).
<p>Paragraph 35</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF added a new requirement on “control activities” in paragraph 35(b) that expands on the requirement in paragraph 26(a)(iv) of ISA 315 (Revised 2019). This is intended to expand the focus of the requirement to obtain an understanding of control activities that prevent or detect fraud in proposed ISA 240 (Revised) beyond “controls over journal entries.” <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A92A: The Fraud TF moved the application material on “obtaining an understanding of the entity’s controls, relevant to assessed risks of material misstatement due to fraud” previously in paragraph A105 in Agenda Item 3–G of the June 2023 meeting material to paragraph A92A to improve the overall flow of the standard. Paragraph A93: The Fraud TF clarified in paragraph A93 that ISA 315 (Revised 2019) requires the auditor to obtain an understanding of controls over journal entries and to <u>evaluate their design and determine their implementation</u>. Paragraph A94: The Fraud TF aligned the construct of paragraph A94 with the requirement in paragraph 35(a). Paragraph A94A: The Fraud TF developed application material on other controls that prevent or detect fraud, that the auditor considers are appropriate in accordance with paragraph 35(b). Paragraph A94B, boxed examples: The Fraud TF added examples of general IT controls that may be relevant to the prevention or detection fraud.

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraph 36</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A95A: The Fraud TF added a reference to paragraph 66(c) and ISA 265¹⁴ that establish other requirements on identified deficiencies in internal controls. This is intended to assist the auditor in determining the actions to take when deficiencies in internal control are identified.
<p>Identifying and Assessing the Risks of Material Misstatement due to Fraud</p>	
<p>Paragraphs 37–39</p>	<p><i>Requirement and Application Material</i></p> <ul style="list-style-type: none"> See explanation for the change in paragraphs 29A–29C and A52A–A52E above.
<p>Paragraph 40</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 40(a): To enhance the fraud lens of the requirement, the Fraud TF added “taking into account fraud risk factors” at the end of paragraph 40(a). This is akin to the requirement in paragraph 31(a) of ISA 315 (Revised 2019) that requires taking into account inherent risk factors. Paragraph 40(b): Following the CUSP DPG, the Fraud TF deleted the phrase “the auditor shall” in paragraph 40(b) to avoid multiple uses of “shall” within one requirement. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A101: The Fraud TF aligned the construct of paragraph A101 with the requirement in paragraph 40(a). Paragraph A105: See explanation for the change in paragraph A92A above.
<p>Paragraph 41</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF combined the 1st and 2nd sentences of paragraph 41 to clarify that the auditor is required to determine which types of revenue, revenue transactions or relevant assertions give rise to risks of material misstatement due to fraud in revenue recognition, <u>taking into account any related fraud risk factors</u>. This change is intended to remove the perception that this requirement is a two-step process.

¹⁴ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Reference	Significant Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A107: The Fraud TF further explained why there may be greater risks of material misstatement due to fraud in the examples provided in paragraph A107 by linking it back to the fraud risk factors associated with them.
Paragraph 42	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A112: The Fraud TF added a reference to paragraphs 48–53 of the standard, which specify the required audit procedures to be designed and performed by the auditor to respond to the risks of management override of controls.
Responses to the Assessed Risks of Material Misstatement Due to Fraud	
Paragraph 44	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A113: The Fraud TF proposes to delete the sentence that describes incorporating unpredictability in the selection of audit procedures to mitigate the effects of confirmation bias on the auditor. The Fraud TF felt that the sentence was inconsistent with the rest of the application material which describes incorporating unpredictability as a means of mitigating familiarity by management of audit procedures performed by the auditor (i.e., which makes them predictable and, accordingly, easier to circumvent). Paragraph A114: The Fraud TF proposes to delete this paragraph because its incremental value was determined to be marginal given that its reference to paragraph 11 of ISA 330¹⁵ is only dealing with incorporating unpredictability narrowly through the timing of audit procedures.
Paragraph 45	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A116: Based on feedback we received from the Professional Skepticism Consultation Group, the Fraud TF deleted the reference to “increased professional skepticism” and replaced it with “the exercise of professional skepticism”. Further, new examples were proposed by a Board member and slightly modified to enhance consistency with this proposed ISA and other ISAs.

¹⁵ ISA 330, *The Auditor’s Responses to Assessed Risks*

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraph 47</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A117: To enhance the consistency of this paragraph to ISA 330, the Fraud TF proposes to shift the focus from "changing" the nature, timing and extent of audit procedures to "designing" audit procedures that yield more persuasive audit evidence given the "higher" risk associated with fraud risks. The Fraud TF also moved the text which had been considered by the Board in June to an example box to enhance its readability. • Paragraph A117A: The Fraud TF proposes to delete this paragraph related to using automated tools and techniques because there is already an example of the use of automated tools and techniques in paragraph A117. • Paragraph A118 and A119: The Fraud TF proposes to delete these paragraphs. Although the paragraphs are substantially based on application material from extant ISA 240, their intended purpose was not considered clear enough. • Paragraph A119A: Paragraph was moved to A117A. • Paragraph A120: The Fraud TF replaced "fraud risk factors" with "risks of material misstatement due to fraud" to make it clear that responses are intended to address risks of material misstatement and not fraud risk factors.  – Agenda Item 3–C includes a proposed consequential amendment to paragraph 3 of ISA 505.¹⁶ The Fraud TF aligned the wording in paragraph 3 of ISA 505 with the wording in paragraph A120. • Paragraph A123A: The Fraud TF added an example and a reference to the requirement and related application material dealing with "exceptions" in paragraphs 14 and A21–A22 of ISA 505.  – Agenda Item 3–C includes a proposed consequential amendment to paragraph A21 of ISA 505 dealing with "exceptions."
<p>Paragraphs 49–50</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraphs A126–A127: The Fraud TF reordered the application material previously in paragraph A127 in Agenda Item 3–G of the June 2023 meeting material with paragraph A126 to improve the overall flow of the standard. • Paragraph A129: The Fraud TF clarified that "<u>drawing on the experience and insight</u> of the engagement partner or other key members of the engagement team <u>is helpful in designing audit procedures to test the appropriateness of journal entries</u>

¹⁶ ISA 505, *External Confirmations*

Reference	Significant Changes and the Rationale for Those Changes
	<p><u>and other adjustments...</u>” to avoid the unintended consequences of suggesting that there may be circumstances when the engagement partner or other key members of the engagement team may (or may not) need to draw on experience and insight.</p> <ul style="list-style-type: none"> • Paragraph A133: The Fraud TF deleted the 1st part of the 1st sentence (i.e., “The auditor may also need to consider...”) to avoid the unintended consequence of suggesting that the auditor may (may not need) to make considerations of what may be included in the population of journal entries and other adjustments. The Fraud TF also made further enhancements to support the clarity of the guidance in this paragraph. • Paragraph A134: The Fraud TF enhanced the beginning of the 1st bullet point as based on the auditor’s understanding of “<u>how the financial statements (including events and transactions)</u> may be susceptible to material misstatement due to fraud” as the phrase “susceptible to material misstatement due to fraud” is usually used to refer to the financial statements in the ISAs. • Paragraph A138, boxed examples: The Fraud TF clarified that the auditor’s determination in accordance with the requirement in paragraph 33(d) may lead the auditor to test journal entries and other adjustments associated with “risk of material misstatement” (and not “fraud risk factors”) strongly linked to fraud schemes that can occur over a long period of time. • Paragraph A139: The Fraud TF deleted the last sentence of paragraph A139 as it substantially repeats the requirement in paragraph 43. • Paragraph A140: The Fraud TF clarified that the auditor may consider using of automated tools and techniques when testing journal entries and other adjustments, as the previous drafting may be perceived as a de facto requirement.

Reference	Significant Changes and the Rationale for Those Changes
<p>Paragraphs 51–52</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Paragraph 51: The Fraud TF clarified that paragraph 51 requires the auditor to review accounting estimates for “indicators of possible management bias.” This change aligns it with the evaluation of judgments and decisions made by management in making the accounting estimates for “indicators of possible management bias” in paragraph 52(b) of proposed ISA 240 (Revised) and paragraph 32 of ISA 540 (Revised). This change also clarifies that this requirement is intended to be a response (and not a risk assessment procedure). <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A143: The Fraud TF deleted parts of paragraph A143 that were considered duplicative of material already in ISA 540 (Revised) and that could be construed as an interpretation of how to apply the relevant requirement in ISA 540 (Revised). • Paragraph A144: Following the CUSP DPG, the Fraud TF restructured this paragraph using a list to avoid long sentences.
<p>Paragraph 53</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A146: The Fraud TF enhanced the list to include an indicator specific to a lack of business rationale. • Paragraph A147: The Fraud TF deleted the guidance previously in paragraph A147 as the example provided was unclear and not useful.
<p>Fraud or Suspected Fraud</p>	
<p>Paragraph 54</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Paragraph 54 (lead-in): The Fraud TF continues to believe that the responsibility to obtain an understanding of the fraud or suspected fraud resides with the engagement partner (i.e., should not be delegated to another member of the engagement team) because this strengthens the response given the nature of the subject matter being addressed — identified fraud or suspected fraud. The Fraud TF also clarified that the requirements of this section apply when the auditor has identified fraud or suspected fraud and that implicitly includes allegations of fraud that have come to the auditor’s attention based on the guidance in paragraphs 7 and A10.

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> • Paragraph 54(a): The Fraud TF proposes to delete the phrase “nature, timing and extent” as it was believed that it was not needed in order to comply with the requirement. The understanding is intended to inform the auditor’s response and is based on the facts and circumstances. This understanding is intended to be scalable and cover a spectrum as outlined in the application material (paragraphs A150–A153). • Paragraphs 54(b)–54(c): The Fraud TF discussed including conditionality in these sub-paragraphs (e.g., “if applicable”), however the Fraud TF believes that the conditionality is appropriately reflected in the respective requirement paragraphs relating to communication with management and TCWG, and reporting to an appropriate authority outside the entity, respectively. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A148: The paragraph was amended to emphasize that the list of actions were examples only. The Fraud TF determined to retain the example pertaining to “consulting on a confidential basis with a regulator or professional body,” as it is believed that there may be instances when management and TCWG are involved with fraud and this may necessitate a discussion with a regulator or professional body, where permissible. The bullets were also reordered as it was recognized that the engagement partner would likely take legal advice before engaging with external parties such as a regulator or professional body. • Paragraph A149: The wording was amended to reiterate that all instances of fraud are non-compliance with laws or regulation as described in paragraph 13. This change provides the engagement partner with the appropriate fraud lens when addressing the required responsibilities in ISA 220 (Revised). • Paragraph A150: The Fraud TF refined the application material as follows: <ul style="list-style-type: none"> ○ In response to feedback received, added two bullets related to “inspecting whistleblower files for additional information,” and further inquiring of “individuals within the internal audit function.” ○ Deleted the bullet related to “consider the implications on prior audit engagements” as it is already a requirement in paragraph 59(e). ○ Moved the bullet dealing with the request to management or TCWG to develop a plan to investigate the fraud to A157 (i.e., which corresponds with the requirement in paragraph 59(a)) and modified it to conform to that requirement.

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> ○ Moved the bullet relating to discussing changes in the reporting deadlines to paragraph A154A as this is better placed with the communications with management and TCWG.
<p>Paragraph 57</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • The Fraud TF recognizes that the understanding obtained may result in additional audit work being performed in accordance with ISA 315 (Revised 2019) and / or ISA 330. The requirement has been amended accordingly. This is also consistent with the approach depicted in the flowchart and materials presented to the Board at the December 2022 plenary session. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • The application material was deleted as it was substantially repetitive of the guidance to paragraph 54 and determined not to be necessary.
<p>Paragraph 59</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Paragraph 59 (lead-in): The Fraud TF proposes to amend the lead-in sentence to the requirement (i.e., “shall also”) in recognition of the fact that the requirement in paragraph 59 includes additional procedures to procedures and conditional procedures described in paragraph 57. The following changes were made to the requirement: <ul style="list-style-type: none"> ○ The bullets were reordered to reflect their relative importance. ○ Based on feedback received, paragraph 59(a) was moved from the requirement in paragraph 62 to recognize the importance of inquiring of management and TCWG about the fraud or suspected fraud and their process to investigate the matter. ○ Paragraph 59(b): To be consistent with CUSP DPG, reworded the bullet to require the auditor to “evaluate” rather than “assess” management’s or TCWG’s process to investigate the matter. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A157: One of the audit procedures that had been listed in paragraph A150 which dealt with obtaining an understanding of the fraud or suspected fraud (“Request management and those charged with governance to develop a robust plan to investigate...”) was revised and moved to paragraph A157 to act as application material to the requirement

Reference	Significant Changes and the Rationale for Those Changes
	<p>in paragraph 59(a). The revision changed the focus from “directing management to develop a plan to investigate” to “making inquiries about management’s or those charged with governance’s process to investigate the fraud or suspected fraud.” The change in focus was considered by the Fraud TF to be more consistent with the role of the auditor when fraud or suspected fraud is identified. The examples included were intended to address scalability in that the sophistication of the process to investigate depends on the facts and circumstances.</p> <ul style="list-style-type: none"> Paragraph A157A: The Fraud TF further refined the application material to the “process to investigate” taken by management or TCWG. In doing so the Fraud TF determined to retain example in the sub-paragraph A157A(b)(i) relating to “timeliness” as the Fraud TF continues to believe that this to be relevant aspect of the evaluation.
Paragraph 60	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A158A: The application material was deleted as the Fraud TF does not believe it is necessary and as it is an implicit outcome of the work performed by the auditor in accordance with proposed ISA 240 (Revised).  – Agenda Item 3–C includes a proposed consequential amendment to paragraphs 5A and A6A of ISA 450.¹⁷ In paragraph 5A, the Fraud TF added a new requirement that “If the auditor identifies a misstatement, the auditor shall determine whether such a misstatement is indicative of fraud”. This requirement leverages the extant wording in paragraph 36 of ISA 240. In paragraph A6A, the Fraud TF added guidance and linkages to proposed ISA 240 (Revised), for when the auditor identifies misstatements that may be a result of fraud.
Paragraph 61	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF proposes to remove paragraphs 61(a)–61(b) in response to feedback received that the sub-paragraphs are not necessary to understand the requirement and that they were causing unnecessary confusion.
Paragraph 62	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF proposes to retain paragraphs 62(a) and 62(c) as they are both from extant ISA 240 (paragraphs 36 and 39, respectively). No further changes proposed. Paragraph 62(b) was moved to paragraph 59(a) as it is better placed as part of the required additional procedures.

¹⁷ ISA 450, *Evaluation of Misstatements Identified During the Audit*

Reference	Significant Changes and the Rationale for Those Changes
Paragraph 63	<ul style="list-style-type: none"> The Fraud TF reverted to previous wording with respect to this requirement.
Evaluation of the Sufficiency and Appropriateness of Audit Evidence	
Paragraph 64	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Fraud TF added “In applying ISA 520...” to clarify that the requirement in paragraph 64 expands on the relevant requirement on analytical procedures that assist auditors when forming an overall conclusion in paragraph 6 of ISA 520.¹⁸
Auditor Unable to Continue the Audit Engagement	
Paragraph 65	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 65(d) was added to address the circumstance when the auditor is unable to withdraw as a result of applicable law or regulation, that the auditor shall consider the possibility of issuing a disclaimer of opinion on the financial statements.
Implications for the Auditor’s Report	
Paragraph 66	<p>NOTE: Throughout this section the phrase “fraud related matter” was changed to “matter related to fraud” for consistency.</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A175 (accounting estimates): To respond to feedback received, the Fraud TF sought to simplify the paragraph and make changes that provide a more robust “fraud lens”. The Fraud TF also included an example to illustrate the application of the paragraph. Paragraph A176 (significant deficiencies in internal control): The Fraud TF responded to comments that not all jurisdictions that adopt the ISAs require listed entities to have whistleblower programs by broadening the example to “the lack of a reporting program.” Paragraph A177 (management override of controls): The Fraud TF proposes edits to address inconsistencies in the paragraph and to enhance the paragraph’s understandability.



¹⁸ ISA 520, *Analytical Procedures*

Reference	Significant Changes and the Rationale for Those Changes
	<p>– Agenda Item 3–C includes the conforming and consequential amendments necessary to advance the proposals to address transparency in the auditor’s report impacting ISA 700 (Revised)¹⁹ and ISA 701 that were discussed by the Board at the June 2023 meeting. In addition, a similar proposed consequential amendment was made to illustrative report within the Appendix to ISA 800 (Revised).²⁰</p>
Paragraph 69	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A184: The Fraud TF has removed the reference to paragraph A187 in paragraph A184(a) because the reference was not appropriate. Paragraph A187A: To respond to a concern that the paragraph appeared to be serving as supplemental guidance to ISA 701, the Fraud TF proposes a consequential amendment to ISA 701 which would serve to also include this guidance in ISA 701.
Communications with Management and Those Charged with Governance	
Paragraphs 71–72	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A191: The Fraud TF changed “when” to “if” to align with the construct of the requirement in paragraph 71.
Documentation	
Paragraph 75	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 75(a): The Fraud TF has simplified the documentation requirement by referring more broadly to the “matters discussed” in paragraph 29. Paragraph 75(c): Fraud TF is proposing to delete this documentation requirement related to journal entries because it is already required by the documentation requirements described in ISA 315 (Revised 2019).
Appendices	

¹⁹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

²⁰ ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

Proposed ISA 240 (Revised) – Summary of Significant Deliberations and Changes
IAASB Main Agenda (September 2023)

Reference	Significant Changes and the Rationale for Those Changes
Appendices 1–4	<ul style="list-style-type: none"><li data-bbox="407 285 1822 313">• The Fraud TF clarified, enhanced or deleted certain examples in response to the Board’s offline written comments.
Appendix 4	<ul style="list-style-type: none"><li data-bbox="407 394 1917 459">• The Fraud TF changed the title of Appendix 4 to “Additional Considerations <u>that May Be Used by the Auditor</u> When Selecting Journal Entries and Other Adjustments for Testing.”