

### Proposed ISA 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* – Issues Paper

#### Objective

The objective of the IAASB discussion in December 2023 is to approve the exposure draft of proposed ISA 240 (Revised),<sup>1</sup> and the related conforming and consequential amendments, as set out in **Agenda Item 2–A** and **Agenda Item 2–C**, respectively.

#### Introduction

1. At the September 2023 IAASB meeting, the Fraud Task Force (Fraud TF) presented its views, recommendations and drafting for proposed ISA 240 (Revised). The IAASB’s decisions, directions and other substantial matters raised are included in the draft September 2023 IAASB meeting minutes (see **Agenda Item 1** of the December 2023 IAASB meeting).
2. This paper sets out the following:
  - **Section I** – Proposed ISA 240 (Revised) and changes made since the September 2023 IAASB meeting.
  - **Section II** – Proposed conforming and consequential amendments arising from proposed ISA 240 (Revised).
  - **Section III** – Other matters relevant for the exposure draft of proposed ISA 240 (Revised).

#### *Approach to the Board Discussion*

3. The Fraud TF Chair will go through the draft of proposed ISA 240 (Revised) presented in **Agenda Item 2–A**, by section or sub-section, and the proposed conforming and consequential amendments in **Agenda Item 2–C**. **Appendix 3** to this Agenda Item shows the approach for the walkthrough of **Agenda Items 2–A** and **2–C**.

#### *Materials Presented—Appendices and Other Agenda Items Accompanying This Paper*

4. This Agenda Item includes the following appendices:

<b>Appendix 1</b>	Fraud TF Members, IAASB Staff and Update on Activities Since the September 2023 IAASB Meeting
<b>Appendix 2</b>	Mapping of Key Changes in Proposed ISA 240 (Revised) to the Actions and Objectives in the Project Proposal that Support the Public Interest
<b>Appendix 3</b>	Approach for the Walkthrough of Agenda Items 2–A and 2–C

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

5. In addition to this Agenda Item, the following agenda items are presented:

<b>Agenda Item 2–A</b>	Proposed ISA 240 (Revised), <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i> – Renumbered and Marked from September 2023
<b>Agenda Item 2–B</b>	Summary of Significant Deliberations and Changes
<b>Agenda Item 2–C</b>	Conforming and Consequential Amendments Arising from Proposed ISA 240 (Revised)
<b>Agenda Item 2–D</b>	Proposed ISA 240 (Revised), <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i> – Clean Version

### Coordination with IESBA and IAASB Task Forces

#### IESBA

6. In November 2023, an updated version of proposed ISA 240 (Revised) was provided to the International Ethics Standards Board for Accountants (IESBA) Staff and Liaison Board Member, to obtain their input on specific paragraphs relating to relevant key concepts in the standard, the definition of fraud, requirements addressing fraud or suspected fraud, the appendix on fraud risk factors, and the linkages (references) to the IESBA Code.<sup>2</sup> This updated version reflected changes made to proposed ISA 240 (Revised) as a result of the September 2023 Board meeting and subsequent task force deliberations. The IESBA Staff and the Liaison Board Member broadly supported the changes to the specific paragraphs in proposed ISA 240 (Revised) on which input was sought.

#### IAASB Task Forces, IAASB Consultation Groups and Other Experts

7. In October 2023, the Fraud TF Chair, the Audit Evidence Task Force (AETF), and the designated IAASB Staff for each of the projects met in person to discuss the relevant paragraphs in proposed ISA 240 (Revised) that may impact, or may be impacted by, the AETF’s work on proposed ISA 500 (Revised).<sup>3</sup>

### Project Objectives that Support the Public Interest

8. **Appendix 2** provides a table that compares the proposals made to enhance or clarify proposed ISA 240 (Revised) to address the standard-setting actions included in the [project proposal](#). As the actions are directly related to the project objectives that support the public interest, these have also been mapped.

<sup>2</sup> IESBA’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<sup>3</sup> Proposed ISA 500 (Revised), *Audit Evidence*

## Section I – Proposed ISA 240 (Revised) and Changes Made Since the September 2023 IAASB Meeting

9. **Agenda Item 2–A** includes a full draft of proposed ISA 240 (Revised). **Agenda Item 2–B** summarizes the Fraud TF’s significant deliberations and changes. This may be helpful when understanding the thinking of the Fraud TF in developing the changes outlined in **Agenda Items 2–A** and **2–C**.
10. In developing the changes, the Fraud TF considered:
  - Comments made during the September 2023 Board meeting and comments provided to IAASB Staff directly (i.e., ‘off-line comments’).
  - Comments made during the September 2023 IAASB Consultative Advisory Group (CAG) meeting.
  - Input from the coordination with the IESBA and the AETF.

### Key Proposed Changes in ISA 240 Aimed at Promoting Consistent Practice and Changing Auditor Behavior

11. The diagram and the related sections below depict and describe what the Fraud TF still believes to be the seven most significant proposed changes addressing the key issues identified in the project proposal, that will drive consistency in practice and change in auditor behavior, specifically:
  - Auditor’s responsibilities;
  - Professional skepticism;
  - Communications with management and those charged with governance (TCWG);
  - Risk identification and assessment;
  - Fraud or suspected fraud;
  - Transparency in the auditor’s report; and
  - Documentation.



12. High-level descriptions of the Fraud TF’s deliberations and recommendations since the September 2023 IAASB meeting relating to professional skepticism, risk identification and assessment, and fraud or suspected fraud are included in **Sections I–A** through **I–C** below, respectively. Deliberations and

changes relating to other key changes included in the diagram above are presented in **Agenda Item 2–B**.

#### *I-A – Professional Skepticism – Authenticity of Records and Documents*

##### Background

13. The IAASB discussed at its June and September 2023 meetings the required work effort that satisfies the conditional requirement in paragraph 20. Paragraph 20 requires the auditor to investigate further “if conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or the terms of a document have been modified but not disclosed to the auditor.”
14. The Fraud TF was asked to consider the following matters:
  - (a) Has the proposed deletion of the first sentence in paragraph A24 of ISA 200<sup>4</sup> (“Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.”) inadvertently expanded the scope of the audit?
  - (b) Has the proposed deletion of the same sentence in the conditional requirement in paragraph 20 of the proposed standard inadvertently expanded the scope of the audit?
  - (c) Has the inclusion of the list of examples in paragraph A27 inadvertently created an expectation that auditors must design and perform procedures to identify whether conditions exist for every record or document obtained during the audit?
  - (d) Is additional application material needed to further clarify the work effort?
15. Given that authenticity of information is also being considered by the AETF as an attribute of reliability of information intended to be used as audit evidence coordination meetings took place between the members of the AETF, the Chair of the fraud project, and IAASB Staff in October and November 2023.

##### Scope of the Audit

16. The Fraud TF reaffirmed that the proposed deletions of the lead-in sentence to the requirement in paragraph 20 and the same sentence in paragraph A24 in ISA 200 (i.e., as a proposed consequential amendment) were never intended to expand the scope of the audit.
17. The Fraud TF believed that the sentence in paragraph 24 of ISA 200 that “the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary”, could be interpreted as undermining an important principle described in the following sentence of that same paragraph which states that the auditor is also required to consider the reliability of information to be used as audit evidence. Nevertheless, after further deliberation following the September 2023 IAASB meeting, the Fraud TF decided to withdraw its proposal for a consequential amendment to paragraph A24 of ISA 200.
18. The decision to withdraw the proposal responded to concerns that deleting the sentence could be misinterpreted as an expansion of the scope of the audit. Concerns were also raised that the deletion could cause other unintended consequences, including potentially increasing legal exposure for audit

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<sup>4</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

firms. Upon further reflection, the Fraud TF concluded that retaining that sentence in ISA 200, paragraph A24 remains aligned with the expectation that auditors will exercise professional skepticism because, as described earlier, the rest of that paragraph clearly describes the auditor's responsibilities to consider the reliability of information to be used as audit evidence (which the Fraud TF notes also includes documents and records) in accordance with extant ISA 500<sup>5</sup> and to apply the requirements in ISA 240 where there are "indications of possible fraud...".

19. On the other hand, the Fraud TF decided to retain the current drafting of paragraph 20 of the proposed standard (i.e., which excludes the lead-in sentence) because it is consistent with the Fraud TF's approach of applying a fraud lens to revisions of the requirements of the proposed standard. However, as described in the next section, the proposed deletion of that sentence from ISA 240 was not intended to increase the work effort as it pertains to authenticity.

#### Required Work Effort

20. In order to appropriately describe why the revision to the requirement in paragraph 20 of the proposed standard has not altered the required work effort, it is useful to consider how the requirement in paragraph 14 of extant ISA 240<sup>6</sup> interacts with the requirements in extant ISA 500.
21. As described earlier, the auditor is required to consider the reliability of information to be used as audit evidence in accordance with paragraph 7 of extant ISA 500 and that includes considering the reliability of records and documents. In applying the requirement in paragraph 7 of extant ISA 500, paragraph A37 clarifies the relationship between extant ISA 500 and extant ISA 240:  
*ISA 240 deals with circumstances where the auditor has reason to believe that a document may not be authentic or may have been modified without that modification having been disclosed to the auditor.*
22. If, as described above, the auditor identifies circumstances that cause the auditor to believe the record/document is inauthentic or that it has been altered, the auditor then applies the requirement in paragraph 14 of extant ISA 240 which states:  
*Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a 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.*
23. Paragraph 14 of extant ISA 240 is identical to the requirement in paragraph 20 of proposed ISA 240 (Revised) except for the first sentence which has been deleted in the proposed standard. The deletion of that sentence does not alter the work effort. Specifically, the conditional requirement in both the extant and proposed standard are triggered in the same way and each require the auditor to investigate further.
24. To respond to the Board's feedback as described in paragraph 14(c), the Fraud TF noted that the auditor is not required to perform procedures that are specifically designed to identify conditions that indicate a document/record is inauthentic or that it has been altered. Rather, the requirement in

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<sup>5</sup> ISA 500, *Audit Evidence*

<sup>6</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

paragraph 20 of the proposed ISA 240 (Revised) is triggered when the auditor identifies those conditions in the following circumstances:

- When performing audit procedures in accordance with this or other ISAs, including ISA 500 which requires the auditor to consider the reliability of information intended to be used as audit evidence when designing and performing audit procedures; or
- When those conditions come to the auditor’s attention, including when they are brought to the auditor’s attention by sources internal or external to the entity during the course of the audit.

#### Proposed Application Material

25. The inclusion of examples of conditions that may be indicative of inauthenticity of records or documents in paragraph A27 of the application material of the proposed standard has attracted mixed reactions from Board members.
26. Some Board members expressed concerns that the inclusion of the examples in paragraph A27 could be misinterpreted to mean that auditors are required to design and perform procedures to identify conditions for every record or document obtained during the audit. Other Board members thought the examples would be useful to smaller audit firms that do not have lists of possible conditions in their audit methodology manuals.
27. The Fraud TF reaffirmed its decision to retain the examples in A27 but nevertheless proposes edits to the paragraph which precedes the examples to clarify the required work effort. See below for the edits proposed by the Fraud TF to paragraph A27.

*A27. ISA 500<sup>7</sup> requires the auditor to consider the reliability of information intended to be used as audit evidence when designing and performing audit procedures. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information. Authenticity is an attribute that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable. In doing so, the auditor may consider whether the source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered. The auditor is not required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. However, paragraph 20 applies if the auditor identifies such conditions during the course of the audit. Irrespective of the auditor’s consideration of the authenticity of the information intended to be used as audit evidence, the auditor is neither trained as, nor expected to be, an expert in the authentication of records or documents.*

#### **Examples:**

*Conditions that, if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor include:*

- ...

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<sup>7</sup> ISA 500, paragraph 7

### Proposed ISA 500 (Revised)

28. The Fraud TF also considered the direction the AETF is taking in revising ISA 500 and the effects that may have on proposed ISA 240 (Revised). The Exposure Draft of proposed ISA 500 (Revised) (ED-500) includes the following key changes that are relevant to the authenticity of records and documents:
- (a) The verb used in paragraph 9 of ED-500 to describe the work effort required of the auditor related to the reliability of information intended to be used as audit evidence has been changed from “consider” to “evaluate”; and
  - (b) ED-500 includes a description of the attributes of reliability that may be applicable in the circumstances, including the attribute of authenticity, that the auditor would be required to consider as part of the auditor’s evaluation in accordance with paragraph 9 of ED-500.
29. The Fraud TF understands that the AETF is further deliberating the requirements based on comments received on ED-500 and that those proposed requirements are subject to change.

### Way Forward

30. The Fraud TF is planning to include a description in the explanatory memorandum of how the proposed standard has addressed the topic of authenticity of records and documents by leveraging some of the material included in this Issues Paper.
31. The Fraud TF also plans to continue coordinating with the AETF on this topic.

### *I-B – Risk Identification and Assessment – Controls / Control Deficiencies Related to the Prevention or Detection of Fraud*

32. At the September 2023 meeting, some Board members asked the Fraud TF to consider whether the drafting of requirements in paragraphs 38 and 39 of proposed ISA 240 (Revised) dealing with control activities and control deficiencies related to the prevention or detection of fraud should instead be related to the prevention or detection of *material misstatements due to fraud*. They were of the view that the focus of the auditor when dealing with fraud is to detect material misstatements due to fraud and that this has been lost because the reference is made to fraud generally.
32. In its deliberations, the Fraud TF considered the Board’s comments. While paragraphs 38 and 39 do not explicitly address control activities and control deficiencies related to the prevention or detection of material misstatements due to fraud, the Fraud TF noted that the overarching focus of the auditor in proposed ISA 240 (Revised) is substantially unchanged from extant ISA 240, as described in the introductory material in paragraph 6 of proposed ISA 240 (Revised). This paragraph states that “the auditor is concerned with a material misstatement of the financial statements due to fraud.”
33. The Fraud TF noted that the requirements relating to risk identification and assessment in proposed ISA 240 (Revised) expand on the requirements in ISA 315 (Revised 2019),<sup>8</sup> the focus of which is to identify and assess the risks of material misstatements in the financial statements. In particular, the phrase “in applying ISA 315 (Revised 2019)” and the related footnote, at the beginning of paragraph 38 of proposed ISA 240 (Revised) mean that this requirement is intended to be applied in addition to or alongside performing the relevant requirement in paragraph 26 of ISA 315 (Revised 2019), the

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<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

focus of which is to identify controls that address risks of material misstatement at the assertion level in the control activities component.

34. The Fraud TF also noted that while the focus of the requirements in proposed ISA 240 (Revised) is to address material misstatements due to fraud, the construct of the requirements in the section relating to “obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control” uses terminology in the context of the entity (e.g., fraud risks, controls designed to prevent or detect fraud). The Fraud TF believes that this convention is appropriate based on the intended outcome of the requirements for this section, that is to obtain an understanding of matters relevant to the entity, in order to provide an appropriate basis for the identification and assessment of risks of material misstatement due to fraud.
35. The Fraud TF further noted that the entity’s control activities addressing fraud are not necessarily designed by management with the ‘focus of the auditor’ in mind. In the Fraud TF’s thinking, a requirement, for example, to obtain an understanding of controls designed to prevent or detect material misstatements due to fraud may not necessarily be aligned with how fraud control activities are designed by management. Generally, a ‘fraud control activity’ is an action established through policies and procedures that helps ensure that management’s directives to mitigate fraud risks are carried out. The Fraud TF’s view is further informed by how the primary responsibility of management and TCWG is described in the context of “the prevention and detection of fraud,” within the “Introduction” and “Written Representations” sections of both extant ISA 240 and proposed ISA 240 (Revised). In particular, paragraph 40(a) of extant ISA 240 and paragraph 65(a) of proposed ISA 240 (Revised) both refer to the responsibility of management and TCWG for “the design, implementation, and maintenance of internal control to prevent or detect fraud.”
36. Based on the foregoing, the Fraud TF reaffirmed its position that the requirements in paragraphs 38 and 39 dealing with control activities and control deficiencies should be drafted using terminology in the context of the entity, and therefore, should be related to the prevention or detection of fraud.

#### *I-C – Fraud or Suspected Fraud*

37. The most significant changes to the proposed standard since the September 2023 IAASB meeting are to the suite of requirements and application material dealing with fraud or suspected fraud (paragraphs 54–58 and A144–A157). These requirements have been collectively referred to as “ramp-up requirements” to emphasize the expectation of a robust work effort by the auditor when fraud or suspected fraud is identified during the audit.
38. The Fraud TF convened after the September 2023 IAASB meeting to further deliberate the following matters raised in the September IAASB meeting related to the fraud or suspected fraud requirements:
  - (a) *Ordering*—The Fraud TF was asked to revisit the ordering of the requirements.
  - (b) *Scalability*—The Fraud TF was asked to clarify whether all identified instances of fraud or suspected fraud affecting the entity are subject to the ramp-up requirements and, if applicable, whether the auditor is required to perform all the fraud or suspected fraud requirements (i.e., whether there are *off-ramps* to the requirements depending on the nature of the fraud).
  - (c) *Role of the engagement partner*—The Fraud TF was asked to reconsider the appropriateness of requiring the engagement partner to be responsible for fulfilling some of the requirements (i.e., paragraphs 54 and 55).

## Ordering of the Requirements

39. A significant focus of the deliberations at the September 2023 IAASB meeting was about the ordering of the fraud or suspected fraud requirements. Some Board members felt that the ordering could be improved to better represent how an auditor typically goes about obtaining an understanding of an identified fraud or suspected fraud and determining its implications on the audit.
40. The Fraud TF agreed that some reordering of those requirements would enhance clarity of the work effort. The more significant changes proposed by the Fraud TF include:
- (a) A repurposed paragraph 54 which groups together many of the procedures that the engagement partner is required to perform to obtain a robust understanding of the fraud or suspected fraud. That involved integrating sub-requirements from paragraph 59 (of the [September 2023 version of the proposed standard](#)) which deal with inquiries of management and TCWG and, if applicable, the auditor's evaluation of the entity's process to investigate the fraud or suspected fraud. A new sub-requirement was also added to paragraph 54 which requires the auditor to obtain an understanding, if applicable, of management's remediation measures implemented to prevent a reoccurrence of the fraud or suspected fraud.
  - (b) A repurposed paragraph 55 which groups together many of the determinations that the engagement partner is required to make after obtaining a robust understanding of the fraud or suspected fraud in accordance with paragraph 54. That involved integrating sub-requirements from paragraph 59 (of the September 2023 version) which deal with determining whether there are additional responsibilities under law, regulation or relevant ethical requirements and the impact of the fraud or suspected fraud, if applicable, on other engagements.
  - (c) A repurposed paragraph 56 which includes the integration of the requirement from paragraph 60 (of the September 2023 version) because that requirement is also relevant when the auditor determines that the fraud or suspected fraud has caused a misstatement in the financial statements. Specifically, the integrated requirement requires that the auditor determine whether the misstatement is material, considering both the quantitative and qualitative considerations.

## Scalability of the Requirements

41. There was also significant deliberation at both the June and September 2023 IAASB meetings about whether the fraud or suspected fraud requirements are sufficiently scalable depending on the nature of the fraud or suspected fraud identified by the auditor. Specifically, the Fraud TF was asked to consider two matters:
- (a) Does the auditor apply the fraud or suspected fraud requirements to all instances of identified fraud or suspected fraud?
  - (b) In applying the fraud or suspected fraud requirements (i.e., the ramp-up requirements), is it sufficiently clear where the *off-ramps* are, including for inconsequential fraud or suspected fraud?
42. Regarding the first question, the Fraud TF reaffirmed its decision that all frauds or suspected frauds affecting the entity that are identified by the auditor are subject to the ramp-up requirements. The Fraud TF believes the engagement partner would first need to apply some of those requirements, including obtaining an understanding of the fraud or suspected, before having a sufficiently informed

perspective to determine the implications of the fraud or suspected fraud on the audit (e.g., to determine the fraud or suspected fraud is inconsequential). Nevertheless, in considering the scalability of the requirements, the Fraud TF also noted that some of the information required by the engagement partner to fulfill the requirement in paragraph 54 may have already been obtained by the engagement team when the fraud or suspected fraud was identified (see new application material in paragraph A146).

43. Regarding the second question, the Fraud TF believes the reordering of the fraud or suspected fraud requirements has also added clarity about the scalability of those requirements. The Fraud TF noted that scalability is incorporated after the engagement partner determines that no additional audit work is required as a result of the fraud or suspected fraud in accordance with paragraph 55. For example, the engagement partner may conclude that none of the other ramp-up requirements are applicable after having made the required determinations in paragraph 55 (e.g., the fraud or suspected fraud does not give rise to the need for additional risk assessment procedures or further audit procedures, and does not create additional responsibilities under law, regulation or relevant ethical requirements).

#### Role of the Engagement Partner

44. The Fraud TF also reaffirmed its decision that the engagement partner should be directly responsible for fulfilling some of the ramp-up requirements.
45. Referring specifically to the engagement partner in a requirement is not a new construct in the ISAs. There are several ISAs, including ISA 220 (Revised),<sup>9</sup> ISA 315 (Revised 2019), and ISA 600 (Revised),<sup>10</sup> that expressly intend that a requirement or responsibility be fulfilled by the engagement partner.
46. Given the critical importance of obtaining a sufficient understanding of an identified fraud or suspected fraud required in paragraph 54 and the determinations that are made based on that understanding in paragraph 55, the Fraud TF continues to believe that the responsibility for fulfilling those requirements needs to be assigned directly to the engagement partner. However, in fulfilling those requirements, the engagement partner may obtain information from other members of the engagement team.

#### Matter for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 2–A**. See **Appendix 3** to this Agenda Item, which shows the approach for the walkthrough of **Agenda Item 2–A**.

<sup>9</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>10</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

## Section II – Proposed Conforming and Consequential Amendments Arising from Proposed ISA 240 (Revised)

47. Please refer to **Agenda Item 2–B** for the Fraud TF’s deliberations about the conforming and consequential amendments to the IAASB’s pronouncements as presented in **Agenda Item 2–C**.

### Matter for the IAASB Consideration

2. The Board is requested to provide its views regarding the Fraud TF’s proposed changes as outlined in **Agenda Item 2–C**.

## Section III – Other Matters

### Exposure Period and Timing of Completion

48. Subject to the Board’s approval in December 2023, the exposure draft of proposed ISA 240 (Revised) and the conforming and consequential amendments are expected to be published in late January 2024 or early February 2024 for a 120-day comment period as per the IAASB’s due process.
49. Based on that date, responses would be due late May 2024 or early June 2024. This comment letter deadline will allow Staff time to analyze the responses received to provide the Board with an analysis of comments received and some key issues in September 2024. This timing will also allow coordinating as needed with Staff of other IAASB Task Forces, Working Groups or Consultation Groups.
50. Subject to the extent and nature of the comments received, the final pronouncement is targeted for completion by March 2025. The final pronouncement is expected to be completed to allow for the possible alignment of the effective dates of the revised going concern and fraud standards.

### Proposed Implementation Period

51. The Fraud TF proposes to include in the Explanatory Memorandum an implementation period of approximately 18 months after the certification of ISA 240 (Revised) by the Public Interest Oversight Board (PIOB) (which is 21 months after the Board’s approval). The Fraud TF is of the view that such period would allow sufficient time to implement the standard, including adoption and translation by jurisdictions, and incorporating the changes into firm methodologies, enablement tools and training materials.
52. A question will be asked in the Explanatory Memorandum about the expected implementation efforts and the appropriateness of the proposed implementation period.

### Effective Date Convention

53. Given that the requirements of proposed ISA 240 (Revised) apply to the planning and performing stages of the audit engagement, the Fraud TF is of the view that the “beginning or after” convention should be used in the effective date paragraph. This would be consistent with Section 6.2 “Effective Date of an ISA” of the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines.

**Due Process Matters**

54. In the Fraud TF's view, the significant matters identified as a result of deliberations since the beginning of this project have been presented in the issues papers presented to the IAASB for discussion. The Fraud TF believes that there are no significant matters that have not been brought to the attention of the IAASB.
55. The Fraud TF does not believe that a consultation paper, field testing or a roundtable is needed at this stage of the project.

**Matter for the IAASB Consideration**

3. The Board is asked for its views on the above matters, in particular in relation to the exposure period and timing of completion, proposed implementation period, and effective date convention.

## Appendix 1

### Fraud TF Members, IAASB Staff and Update on Activities Since the September 2023 IAASB Meeting

#### Fraud TF and Staff Members

1. The Fraud TF consists of the following members:
  - Julie Corden, Chair
  - William Edge
  - Josephine Jackson
  - Sachiko Kai
  - Diane Larsen
2. The Fraud TF is supported by the following IAASB Staff members:
  - Jasper van den Hout, Director
  - Angelo Giardina, Principal
  - Hankenson Jane L. Talatala, Senior Manager
  - Thokozani Nkosi, Staff Fellow
3. Information about the project can be found [here](#).

#### Fraud TF Activities

4. Since September 2023, the Fraud TF held two virtual meetings over four days. In addition, the Fraud TF Chair and the IAASB Staff met in person to progress the draft standard.
5. Owing to the nature of the activities being undertaken, work was also progressed via electronic circulation of materials between members of the Fraud TF and the IAASB Staff.

#### Outreach

6. Project specific outreach in September and October 2023 included the following:
  - The Fraud TF Chair participated at the Canadian Public Accountability Board Symposium: The Evolving Fraud Landscape.
  - The Fraud TF Chair, supported by IAASB Staff, provided a project update at the Small and Medium Practices Advisory Group meeting. The update covered the key proposed changes in ISA 240 aimed at promoting consistent practice and changing auditor behavior.
  - The Fraud TF Chair, supported by IAASB members, Technical Advisor and Staff, conducted a deep dive session on proposed ISA 240 (Revised) at the Forum of Firms meeting. The deep dive session covered the key proposed changes in ISA 240 aimed at promoting consistent practice and changing auditor behavior, specifically focusing on the topics relating to the auditor's responsibilities, professional skepticism, risk identification and assessment, fraud or suspected fraud, and transparency in the auditor's report.

7. As part of the IAASB's general outreach program, the IAASB Chair and/or the IAASB Program & Technical Director met with representatives from the following organizations to discuss the status of the fraud project:
- The Committee of European Auditing Oversight Bodies' International Auditing Standards and Inspections Sub-Groups;
  - The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1);
  - The Basel Committee on Banking Supervision's Accounting and Audit Expert Group;
  - The Public Interest Oversight Board; and
  - The Monitoring Group.

## Appendix 2

### Mapping of Key Changes in Proposed ISA 240 (Revised) to the Actions and Objectives in the Project Proposal that Support the Public Interest

#### Introduction

1. This appendix maps the key changes in proposed ISA 240 (Revised) to the actions and objectives in the project proposal that support the public interest. It also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address each proposed action.
2. The qualitative characteristics considered when developing the revisions in proposed ISA 240 (Revised), including why such characteristics are of importance for the proposals, are as follows:<sup>11</sup>
  - (a) *Scalability* (including proportionality to the standard’s relative impact on different stakeholders).
  - (b) *Relevance* (through recognizing and responding to emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology).
  - (c) *Comprehensiveness* (through limiting the extent to which there are exceptions to the principles set out).
  - (d) *Clarity and conciseness* (to enhance understandability and minimize the likelihood of differing interpretations).
  - (e) *Implementability* and ability of being consistently applied and globally operable.
  - (f) *Enforceability* (through clearly stated responsibilities).
3. In the development of proposed ISA 240 (Revised), the Fraud TF also considered the qualitative factor, *Coherence*. The Fraud TF considered the coherence with the overall body of ISAs (e.g., by building appropriately on the foundational requirements in ISA 315 (Revised 2019) and ISA 330<sup>12</sup>).

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<sup>11</sup> Qualitative characteristics from those outlined in paragraph 26 of the project proposal and those that arose as the development work progressed. Also see the Public Interest Framework (Section “What qualitative characteristics should the standards exhibit?”) published by the Monitoring Group in July 2020 (as part of their report “[Strengthening the International Audit and Ethics Standard-Setting System](#)”).

<sup>12</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<b>A. Project Objective: Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.</b>			
<p><b>A.1: Introductory Paragraphs in ISA 240 – Emphasis on the Auditor’s Responsibilities</b></p> <p>Enhance and clarify the introductory paragraphs in ISA 240 to emphasize the auditor’s responsibilities regarding fraud, including:</p> <ul style="list-style-type: none"> <li>Considering changes and enhancements made by others in different jurisdictions in their equivalent of ISA 240 to reduce the ambiguity between the inherent limitations of an audit and the auditor’s responsibilities for fraud in an audit of financial statements.</li> <li>Considering whether to provide context for the auditor’s responsibilities by explaining the responsibilities of others in the financial reporting ecosystem (relevant to the financial statement audit) within the introductory</li> </ul>	<p>Paras. 1–11, A1–A12</p>	<ul style="list-style-type: none"> <li>Reordered the introductory paragraphs (including related application material) to refer to the responsibilities of the auditor before the responsibilities of management and TCWG to describe first the role of the auditor related to fraud in an audit of financial statements, recognizing that this is an auditing standard.</li> <li>Moved the inherent limitations (including related application material) of an audit out of the “Responsibilities of the Auditor” into the new “Key Concepts of this ISA” section in proposed ISA 240 (Revised). The intent was to decouple descriptions about inherent limitations of the audit and the auditor’s responsibilities because the inherent limitations do not diminish the auditor’s responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud.</li> </ul>	<ul style="list-style-type: none"> <li><i>Clarity and conciseness</i></li> <li><i>Comprehensiveness</i></li> <li><i>Enforceability</i></li> </ul>

<sup>13</sup> Proposed actions in the Project Proposal related to the development of non-authoritative guidance have been greyed out as these have not been addressed in proposed ISA 240 (Revised) and will therefore not be discussed by the Board at the December 2023 meeting.

<sup>14</sup> The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>paragraphs.</p> <ul style="list-style-type: none"> <li>Considering whether the auditor’s responsibilities should be placed prior to the description of inherent limitations of an audit.</li> </ul>			
<p><b>A.2: Application Material – Definition of Fraud</b></p> <p>Enhance application material to clarify how concepts such as bribery and corruption, and money laundering, relate to the definition of fraud for purposes of an audit of financial statements, including consideration of the most appropriate standard for this application material (i.e., ISA 240 or ISA 250 (Revised)<sup>15</sup>).</p>	<p>Paras. A19–A21</p>	<ul style="list-style-type: none"> <li>Added application material that: <ul style="list-style-type: none"> <li>Clarifies the relationship of fraud with corruption, bribery and money laundering.</li> <li>Indicates that certain laws, regulations or aspects of relevant ethical requirements dealing with corruption, bribery or money laundering may be relevant to the auditor’s responsibilities to consider laws and regulations in an audit of financial statements in accordance with ISA 250 (Revised).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><i>Clarity and conciseness</i></li> <li><i>Coherence</i></li> </ul>
<p><b>A.3: Requirements and Application Material – Specialized Skills</b></p> <p>Consider enhancing requirements and application material in ISA 240 on the need for specialized skills (including forensic skills):</p> <ul style="list-style-type: none"> <li>Consider a new requirement and</li> </ul>	<p>Paras. 22–24, A33–A38</p>	<ul style="list-style-type: none"> <li>Added requirements that expand on relevant requirements in ISA 220 (Revised), for the engagement partner to: <ul style="list-style-type: none"> <li>Determine that members of engagement team collectively have the appropriate competence and capabilities, including <i>appropriate specialized skills or knowledge</i> to perform risk assessment procedures, identify and assess</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> </ul>

<sup>15</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>enhanced application material for those circumstances when it is appropriate for the auditor to “consider the need for specialized skills, including forensic skills” to assist with audit procedures, such as:</p> <ul style="list-style-type: none"> <li>○ When performing risk identification and assessment. In doing so, consider how this links to the revised requirements in ISA 220 (Revised) for adequate resources for the engagement.</li> <li>○ When there is identified or suspected fraud.</li> <li>• Consider how scalability of a new requirement can be achieved by taking into the account the nature and circumstances of auditors to have access to such specialized skills, in particular, auditors of less complex entities (LCEs).</li> <li>• Consider how to describe “forensic skills,” in light of comments that this term is not commonly understood (i.e., clarify what may qualify as forensic skills).</li> </ul>		<p>the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained.</p> <ul style="list-style-type: none"> <li>○ Determine that the nature, timing and extent of direction, supervision and review by considering fraud-related matters identified during the course of the audit engagement.</li> <li>• Added application material that: <ul style="list-style-type: none"> <li>○ Leverages relevant guidance provided in ISA 220 (Revised) explaining that the engagement partner’s determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the nature and circumstances of the audit engagement, taking into account any changes that may have arisen during the engagement.</li> <li>○ Illustrates the scalability of the requirement through examples and by explaining that the nature, timing, and extent of the involvement of individuals with specialized skills or knowledge, such as forensic and other experts, may vary based on the nature and circumstances of the audit engagement.</li> <li>○ Describes forensic skills and explains how forensic skills in the context of an audit of</li> </ul> </li> </ul>	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<ul style="list-style-type: none"> <li>Consider changes made by others in different jurisdictions relating to the use of specialized skills.</li> </ul>		financial statements may be used, including examples of forensic skills.	
<p><b>B. Project Objective: Promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary.</b></p>			
<p><b>B.4: Requirements and Application Material – Identifying and Assessing Risks of Material Misstatement</b></p> <p>Enhance and clarify requirements and application material in ISA 240 to incorporate recent changes in ISA 315 (Revised 2019) to make fraud risk identification and assessment more robust, including:</p> <ul style="list-style-type: none"> <li>Developing explicit fraud considerations in risk assessment procedures.</li> <li>Clarifying that risk assessment procedures in ISA 240 are not separate from those in ISA 315 (Revised 2019).</li> <li>Enhancing the requirements to consider information obtained from acceptance and continuance when obtaining an understanding of the</li> </ul>	<p>Paras. 26–42, A44–A114</p>	<ul style="list-style-type: none"> <li>Enhanced or added requirements and application material to incorporate recent changes in ISA 315 (Revised 2019) to make fraud risk identification and assessment more robust, including requirements describing the auditor’s explicit or specific fraud considerations when obtaining an understanding of the: <ul style="list-style-type: none"> <li>Entity and its environment, and the applicable financial reporting framework; and</li> <li>The components of the entity’s system of internal control, including the control environment, the entity’s risk assessment process, the entity’s process to monitor the system of internal control, the information system and communication, and control activities.</li> </ul> </li> <li>Restructured proposed ISA 240 (Revised) to follow a similar structure as ISA 315 (Revised 2019), which helps demonstrate the integrated relationship</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Relevance</i></li> <li><i>Comprehensiveness</i></li> <li><i>Implementability</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>entity and its environment, etc.</p> <ul style="list-style-type: none"> <li>• Describing the auditor’s specific considerations relating to fraud when obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control in accordance with ISA 315 (Revised 2019), with an emphasis on, for example: <ul style="list-style-type: none"> <li>○ The entity’s corporate culture.</li> <li>○ Entity’s key performance indicators (KPIs).</li> <li>○ Employee performance measures and incentive compensation policies.</li> <li>○ The entity’s risk assessment process.</li> <li>○ Specific control activities to prevent and detect fraud.</li> <li>○ Other information, e.g., matters the auditor is aware of based on the performance of procedures</li> </ul> </li> </ul>		<p>between the two standards.</p> <ul style="list-style-type: none"> <li>• Enhanced requirements by expanding on the relevant requirements in ISA 315 (Revised 2019) for the auditor to consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present.</li> <li>• To align with ISA 540 (Revised)<sup>17</sup> and to reflect the actual nature of the procedure, relocated the requirement and application material relating to the retrospective reviews from the “Responses to the Assessed Risk of Material Misstatement Due to Fraud” section to the “Risk Assessment Procedures and Related Activities” section of proposed ISA 240 (Revised).</li> <li>• Enhanced requirements by emphasizing that the procedures performed by the auditor to obtain audit evidence for the identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels <i>take into account fraud risk factors</i>.</li> <li>• Enhanced or added application material that: <ul style="list-style-type: none"> <li>○ Explains more precisely what the expanded requirements relating to risk identification and assessment in proposed ISA 240 (Revised)</li> </ul> </li> </ul>	

<sup>17</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>in accordance with ISA 720 (Revised)<sup>16</sup> or the auditor’s knowledge obtained throughout the audit.</p> <ul style="list-style-type: none"> <li>Updating the fraud risk factors currently included in the Appendix to ISA 240 and considering whether the fraud risk factors should rather form part of the application material.</li> <li>Emphasizing in ISA 240 how fraud risk factors influence the identified risks of material misstatement due to fraud at the assertion level, and therefore in designing a more precise response to such a fraud risk.</li> <li>Considering examples in ISA 240 to illustrate the scalability of the requirements, for example by providing examples that are more relevant to LCEs.</li> </ul>		<p>are intended to cover, as well as in some cases “why” a procedure or action is needed.</p> <ul style="list-style-type: none"> <li>Provides examples demonstrating how the requirements can be applied for smaller or LCEs.</li> </ul> <ul style="list-style-type: none"> <li>Updated the fraud risk factors in Appendix 1 to proposed ISA 240 (Revised).</li> </ul>	
<p><b>B.5: Requirements and Application Material – Engagement Team Discussion</b></p> <p>Enhance requirements and application material in ISA 240 to make the engagement</p>	<p>Paras. 29, A38, A48–A53</p>	<ul style="list-style-type: none"> <li>Enhanced requirements by clarifying that the discussion is between the engagement partner and other key engagement team members, and specifying what topics are required to be discussed,</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Relevance</i></li> <li><i>Comprehensiveness</i></li> </ul>

<sup>16</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>team discussion on fraud considerations more robust, including</p> <ul style="list-style-type: none"> <li>Enhancing requirements to require specific topics to be included during the engagement team discussion.</li> <li>Enhancing application material in ISA 240 to explain when it may be beneficial to hold further engagement team discussion(s).</li> <li>Enhancing application material in ISA 240 for when it may be beneficial for specialists (including internal or external fraud specialists) to attend engagement team discussion(s).</li> </ul>		<p>including:</p> <ul style="list-style-type: none"> <li>An exchange of ideas about the entity's culture, management's commitment to integrity and ethical values, the related oversight by TCWG, and fraud risk factors; and</li> <li>Consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan for the audit engagement.</li> <li>Added application material, with examples, explaining that depending on the nature and circumstances of the audit engagement and the occurrence of events or conditions, it may be beneficial to hold further engagement team discussions.</li> <li>Added application material explaining that the involvement and contributions of experts with specialized skills or knowledge may elevate the quality of the discussion taking place.</li> </ul>	<ul style="list-style-type: none"> <li><i>Implementability</i></li> <li><i>Coherence</i></li> </ul>
<p><b>B.6: Development of Non-Authoritative Guidance</b></p> <ul style="list-style-type: none"> <li><b>Key Performance Indicators</b></li> <li><b>Inquiries of Management and Others Within the Entity Tailored for Fraud Considerations</b></li> </ul>			
<p><b>B.7: Requirements and Application Material – Responses to the Assessed</b></p>	<p>Paras. 43–47, 48, 51–</p>	<ul style="list-style-type: none"> <li>Added a requirement for the auditor to design and perform audit procedures in response to the</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p><b>Risks of Material Misstatement</b></p> <p>Enhance the requirements and application material in ISA 240 to strengthen the auditor’s responses to assessed risks of material misstatement due to fraud, as necessary in light of the proposed actions addressing fraud risk identification and assessment and other fraud-related procedures, including:</p> <ul style="list-style-type: none"> <li>Considering a stand-back requirement in ISA 240 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.</li> <li>Enhancing application material in ISA 240 to encourage emphasis on management bias when considering the appropriateness of accounting estimates from a fraud perspective as well as improving the link to the procedures required in ISA 540 (Revised).</li> </ul>	52, A140–A142	<p>assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management’s assertions or towards excluding audit evidence that may be contradict such assertions. The requirement is consistent with similar requirements in ISA 315 (Revised 2019) and ISA 540 (Revised).</p> <ul style="list-style-type: none"> <li>Clarified that irrespective of the auditor’s assessment of the risks of management override of controls, the auditor is required to design and perform audit procedures addressing journal entries, accounting estimates and significant transactions outside the normal course of business, and determine whether other audit procedures are needed in addition to those required, in order to respond to the identified risks of management override of controls.</li> <li>Enhanced the requirement for the auditor to review accounting estimates for “indicators of possible management bias,” by adding a requirement for the auditor to consider the audit evidence obtained from the retrospective review performed. Added application material addressing indicators of possible management bias, including relevant linkages to ISA 540 (Revised) and examples of indicators of possible management bias in how management makes the accounting estimates that may represent a risk of material misstatement due to fraud.</li> </ul>	<ul style="list-style-type: none"> <li><i>Comprehensiveness</i></li> <li><i>Implementability</i></li> <li><i>Enforceability</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p><b>B.8: Requirements and Application Material – Written Representations from Management</b></p> <p>Consider enhancing and clarifying the requirements and application material for written representations from management.</p>	Para. 65	<ul style="list-style-type: none"> <li>Enhanced the requirement by adding that the auditor shall obtain written representations from management and, where appropriate, TCWG, about whether they have appropriately fulfilled their responsibilities for the design, implementation and maintenance of internal control to prevent or detect fraud.</li> </ul>	<ul style="list-style-type: none"> <li><i>Clarity and conciseness</i></li> </ul>
<p><b>B.9: Application Material – Technology Considerations</b></p> <p>Enhance application material in ISA 240 to reflect and describe the use of technology to:</p> <ul style="list-style-type: none"> <li>Enable fraudulent activity (including cybercrime).</li> <li>Perform fraud-related procedures by auditors.</li> </ul> <p>In doing so, remaining mindful of maintaining a balance of not ‘dating’ the standard by referring to technologies that may change and evolve, and consulting with a technology expert(s) as needed.</p>	Paras. A5, A9, A36, A51, A60, A64, A85, A97, A117, A118, A135, A137, A141, A160, Appendix 2 and Appendix 4	<p>Added application material to reflect and describe the use of technology, including:</p> <ul style="list-style-type: none"> <li>Examples of how fraud can be committed by management overriding controls using automated tools and techniques.</li> <li>Guidance on how the auditor may use automated tools and techniques to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud.</li> <li>Guidance highlighting that expertise in IT systems may be considered when determining whether the engagement team has the appropriate competence and capabilities.</li> <li>Guidance on the use of automated tools and techniques by the engagement team to support their discussions about susceptibility of the entity’s financial statements to material misstatement due to fraud.</li> <li>Guidance and examples of automated controls that</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> <li><i>Implementability</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		<p>prevent or detect fraud within the entity.</p> <ul style="list-style-type: none"> <li>Guidance on the auditor’s consideration of the implication of changes to the entity’s IT environment when performing risk assessment procedures.</li> <li>Guidance and examples on the use of automated tools and techniques by the auditor as part of their overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, including the exercise professional skepticism.</li> <li>Guidance on the use of automated tools and techniques by the auditor to test journal entries.</li> <li>Guidance and examples on the use of automated tools and techniques by the engagement team to review accounting estimates for management bias.</li> </ul>	
<b>B.10: Development of Non-Authoritative Guidance – Technology Considerations in the Current Environment</b>			
<p><b>B.11: Introductory Paragraphs and Application Material in ISA 240 – Relationship Between ISA 240 and ISA 250 (Revised), and Other ISAs</b></p> <p>Enhance the introductory paragraphs and consider application material in ISA 240 to clarify the relationship between ISA 240 and</p>	Paras. 14–15, A16–A18	<ul style="list-style-type: none"> <li>Added an introductory paragraph explaining the relationship of proposed ISA 240 (Revised) with the other ISAs, including ISA 250 (Revised).</li> <li>Clarified that fraud constitutes an instance of non-compliance with laws and regulations, and as such, the identification of fraud or suspected fraud could give rise to additional responsibilities under law,</li> </ul>	<ul style="list-style-type: none"> <li><i>Clarity and conciseness</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>ISA 250 (Revised), including:</p> <ul style="list-style-type: none"> <li>Highlighting the interrelationship between fraud and non-compliance with laws and regulations (i.e., fraud usually constitutes an illegal act and therefore, also falls under ISA 250 (Revised)).</li> </ul> <p>Enhance, within the standards, the linkages between ISA 240 and the other ISAs with cross-referencing as appropriate.</p>		<p>regulation, or relevant ethical requirements.</p> <ul style="list-style-type: none"> <li>Added and enhanced application material explaining that fraud or suspected fraud affecting the entity, including fraud or suspected fraud that has been perpetrated by a third party, may also give rise to additional responsibilities for the auditor under law, regulation, or relevant ethical requirements which may differ or go beyond this proposed ISA and other ISAs.</li> </ul>	
<b>B.12: Development of Non-Authoritative Guidance – Relationship Between ISA 240 and ISA 250 (Revised)</b>			
<b>B.13: Development of Non-Authoritative Guidance – Linkages Between ISAs</b>			
<p><b>B.14: Requirements and Application Material – Journal Entries</b></p> <p>Clarify the requirements and application material in ISA 240 on the approach to testing journal entries, including:</p> <ul style="list-style-type: none"> <li>Considering enhancing requirements in ISA 240 to: <ul style="list-style-type: none"> <li>Clarify that the auditor’s risk assessment procedures</li> </ul> </li> </ul>	<p>Paras. 37, 38(a), 49–50, A95–A97, A98–A100, A102, A126–A137, Appendix 4</p>	<ul style="list-style-type: none"> <li>Added requirements and related application material, for the auditor to obtain an understanding of: <ul style="list-style-type: none"> <li>How journal entries are initiated, processed, recorded, and corrected, as necessary.</li> <li>Controls over journal entries, designed to prevent or detect fraud.</li> </ul> <p>These requirements build on the relevant requirements in ISA 315 (Revised 2019).</p> </li> <li>Added a requirement and related application material,</li> </ul>	<ul style="list-style-type: none"> <li><i>Relevance</i></li> <li><i>Comprehensiveness</i></li> <li><i>Implementability</i></li> <li><i>Enforceability</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>performed as part of ISA 315 (Revised 2019) for controls over journal entries are also relevant to the auditor’s decisions on journal entry testing in ISA 240.</p> <ul style="list-style-type: none"> <li>○ Take account of the impact of technology when testing journal entries.</li> <li>○ Address the extent of testing of journal entries to respond to identified risks.</li> <li>● Enhancing application material to: <ul style="list-style-type: none"> <li>○ Clarify what the auditor’s objectives are when testing journal entries, and explain how auditors may determine the nature, timing and extent of the auditor’s procedures for journal entry testing.</li> <li>○ Consider the impact of any proposed changes being made to ISA 500 (e.g., obtaining audit evidence about the completeness of the information used to test journal entries).</li> </ul> </li> </ul>		<p>for the auditor to obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements throughout the period.</p> <ul style="list-style-type: none"> <li>● Strengthened the work effort related to the requirement to test journal entries and other adjustments throughout the period by changing the work effort verb from “consider” to “determine.”</li> <li>● Added application material that: <ul style="list-style-type: none"> <li>○ Clarifies why the testing of journal entries and other adjustments is performed.</li> <li>○ Explains that the auditor’s design and performance of audit procedure procedures over journal entries and other adjustments may be informed by: <ul style="list-style-type: none"> <li>▪ Leveraging insights based on the auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control.</li> <li>▪ Drawing on the experience and insight of the engagement partner or other key members of the engagement team.</li> </ul> </li> <li>○ Explains how the use of automated tools and techniques may be used by the auditor to test journal entries.</li> </ul> </li> </ul>	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		<ul style="list-style-type: none"> <li>Added an appendix with additional considerations that may inform the auditor when selecting journal entries and other adjustments for testing.</li> </ul>	
<p><b>B.15: Requirements and Application Material – Presumption of Fraud Risk in Revenue Recognition</b></p> <p>Revise requirements and enhance application material in ISA 240 to clarify how performing a robust risk assessment is critical in determining whether or not the presumption of fraud risk in revenue recognition is applicable, including:</p> <ul style="list-style-type: none"> <li>Revising the requirement in ISA 240 to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment.</li> <li>Enhancing the application material in ISA 240 to: <ul style="list-style-type: none"> <li>Highlight other account balances that may be particularly susceptible to material misstatement due to fraud (such as goodwill).</li> <li>Clarify when it is inappropriate to rebut the presumption of risks</li> </ul> </li> </ul>	<p>Paras. 41, A105, 107, A108–A113</p>	<ul style="list-style-type: none"> <li>Enhanced the requirement by changing the work effort verb from “evaluate” to “determine” which types of revenue, revenue transactions or relevant assertions give rise to risks of material misstatement due to fraud, <i>taking into account related fraud risk factors</i>. Also, the reference to the documentation requirement, where the auditor concludes that the presumption is not applicable in the circumstances of the engagement, was removed to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment.</li> </ul> <p>Enhanced or added application material that:</p> <ul style="list-style-type: none"> <li>Highlights relevant assertions and the related classes of transactions, other account balances, or disclosures that may be particularly susceptible to risks of material misstatement due to fraud.</li> <li>Illustrates additional examples of circumstances where there may be greater risks of material misstatement due to fraud in revenue recognition.</li> <li>Clarifies that the significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Relevance</i></li> <li><i>Clarity and conciseness</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>of fraud in revenue recognition (shifting away from clarifying when it may be appropriate to rebut the presumption of risk of fraud in revenue recognition).</p> <ul style="list-style-type: none"> <li>○ Describe public sector considerations.</li> </ul>		<p>auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. Further clarifies when it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition, in the case where fraud risk factors are not present or not significant.</p> <ul style="list-style-type: none"> <li>• Describes considerations specific to public sector entities relating to misappropriation of assets (e.g., misappropriation of funds) as a common type of fraud.</li> </ul>	
<p><b>B.16: Application Material – Analytical Procedures</b></p> <p>Consider enhancing and clarifying the application material in ISA 240 to emphasize the link to ISA 315 (Revised 2019) and ISA 520<sup>18</sup> with respect to analytical procedures at the planning and completion stages of the audit and how such procedures can be effectively used to consider the possibility of fraud.</p>	<p>Paras. 31, 59, A54, A159–A160</p>	<ul style="list-style-type: none"> <li>• Enhanced requirements relating to analytical procedures at the planning and completion stages of the audit by changing the work effort verb from “evaluate” to “determine.”</li> <li>• Enhanced or added application material that: <ul style="list-style-type: none"> <li>○ Explains that, at the planning stage, the auditor may identify fluctuations or relationships when performing analytical procedures in accordance with ISA 315 (Revised 2019) that are inconsistent with other relevant information or that differ from expected values significantly.</li> <li>○ Links to the guidance in ISA 520 explaining</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Clarity and conciseness</i></li> </ul>

<sup>18</sup> ISA 520, *Analytical Procedures*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		that analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.	
<p><b>B.17: Requirements and Application Material – Fraud Is Identified or Suspected</b></p> <p>Designate a separate section in ISA 240 for required audit procedures when fraud is identified or suspected, including:</p> <ul style="list-style-type: none"> <li>Developing new requirements, relocating existing requirements, or elevating existing application material to requirements.</li> <li>Enhancing application material as needed.</li> </ul>	Paras. 54–58	<ul style="list-style-type: none"> <li>Added a separate section in proposed ISA 240 (Revised) for audit procedures when fraud is identified or suspected.</li> <li>Added requirements, and related application material, that: <ul style="list-style-type: none"> <li>Clarifies the engagement partner’s responsibilities when fraud or suspected fraud is identified, including that the engagement partner is required to: <ul style="list-style-type: none"> <li>Obtain an understanding of the fraud or suspected fraud to determine the effect on the audit engagement;</li> <li>Determine whether to perform additional risk assessment procedures, design and perform further audit procedures; and</li> <li>Consider the impact on other engagements.</li> </ul> </li> <li>Clarifies the auditor’s responsibilities when the auditor identifies a misstatement due to fraud, including:</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Scalability</li> <li>Relevance</li> <li>Comprehensiveness</li> <li>Clarity and conciseness</li> <li>Implementability</li> <li>Enforceability</li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		<ul style="list-style-type: none"> <li>▪ Determining whether the identified misstatement is material; and</li> <li>▪ Determining the implications of the misstatement in relation to other aspects of the audit.</li> <li>○ Clarifies the auditor’s responsibilities when the auditor determines that the financial statements are materially misstated due to fraud.</li> <li>○ Explains that if the auditor is unable to conclude whether the financial statements are materially misstated as a result of fraud, the auditor shall determine the implications for the audit or the auditor’s opinion on the financial statements in accordance with ISA 705 (Revised).<sup>19</sup></li> </ul>	
<p><b>B.18: Application Material – Unpredictability of Audit Procedures</b></p> <p>Enhance or clarify application material in ISA 240 on how to design unpredictable audit procedures, including providing examples of the types of procedures that can be used by the auditor, and how such procedures can</p>	Paras. A115–A116	<ul style="list-style-type: none"> <li>• Enhanced the application material by adding examples of unpredictable audit procedures, including incorporating unpredictability through the use of automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Relevance</i></li> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability</i></li> </ul>

<sup>19</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
be scalable.			
<p><b>B.19: Introductory Paragraphs and Application Material in ISA 240 – Non-Material Fraud</b></p> <p>Enhance the introductory paragraphs and consider application material in ISA 240 to describe the auditor’s responsibilities when non-material fraud is identified or suspected (e.g., that more work is required to conclude that it is a non-material fraud, taking into account the quantitative and qualitative characteristics of a possible misstatement).</p>	Para. A11	<ul style="list-style-type: none"> <li>• Enhanced the application material by clarifying that identified misstatements due to fraud that are not quantitatively material may be qualitatively material depending on who perpetrated the fraud and why the fraud was perpetrated, for example, misstatements that are not material quantitatively but have been made intentionally by management to manage KPIs.</li> <li>• Clarified that the “fraud or suspected fraud requirements” in paragraphs 54–58 apply to all instances of fraud or suspected fraud identified by the auditor, irrespective of materiality, and that the auditor is required to apply some or all of those requirements before determining the implications of the fraud or suspected fraud on the audit, including whether it is inconsequential.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Comprehensiveness</i></li> <li>• <i>Clarity and conciseness</i></li> </ul>
<p><b>B.20: Application Material – Third Party Fraud</b></p> <p>Enhance application material in ISA 240 to determine the auditor’s actions when third party fraud is identified or suspected that may give rise to risks of material misstatement due to fraud.</p>	Para. 29(a)(ii)(c), A22, A52, A80	<ul style="list-style-type: none"> <li>• Enhanced requirements and related application material addressing third-party fraud by requiring that the engagement team discussion shall include an exchange of ideas about how assets of the entity could be misappropriated by third parties.</li> <li>• Added application material that: <ul style="list-style-type: none"> <li>○ Clarifies that fraud as defined in ISA 240 can include an intentional act by a third party and describes generally what third-party fraud is.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Comprehensiveness</i></li> <li>• <i>Clarity and conciseness</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		<ul style="list-style-type: none"> <li>○ Explains that the entity’s fraud risk identification process may include an assessment of the incentives, pressures, and opportunities to commit fraud, or how the entity may be susceptible to third-party fraud.</li> </ul>	
<p><b>B.21: Requirements and Application Material – Audit Documentation</b></p> <p>Consider the need to enhance or expand the specific documentation requirements in ISA 240, and application material, as appropriate, once the other changes within the standard have been developed (as such changes may necessitate new or revised specific documentation requirements and guidance).</p>	Para. 70, A197	<ul style="list-style-type: none"> <li>• Added a requirement for the auditor to document: <ul style="list-style-type: none"> <li>○ Key elements of the auditor’s understanding in accordance with paragraphs 30–35 of proposed ISA 240 (Revised).</li> <li>○ Matters related to fraud or suspected fraud.</li> </ul> </li> <li>• Added application material leveraging paragraphs 11 and A15 of ISA 230<sup>20</sup> dealing with the documentation of inconsistencies with the auditor’s final conclusion regarding a significant matter.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability</i></li> <li>• <i>Enforceability</i></li> </ul>
<p><b>B.22: Application Material – External Confirmations</b></p> <p>Consider enhancing application material in ISA 240 related to fraud considerations for external confirmation procedures (e.g., when considering third party fraud), including:</p> <ul style="list-style-type: none"> <li>• Modernizing ISA 240 for current practice and developments in</li> </ul>	Paras. A119–A124	<ul style="list-style-type: none"> <li>• Added application material that: <ul style="list-style-type: none"> <li>○ Highlights the usefulness of external confirmations as an audit procedure and highlights that the use of external confirmation procedures may be more effective or provide more persuasive audit evidence over the terms and conditions of a contractual agreement.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Relevance</i></li> <li>• <i>Clarity and conciseness</i></li> </ul>

<sup>20</sup> ISA 230, *Audit Documentation*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>technology, including technology used in practice for external confirmations.</p> <ul style="list-style-type: none"> <li>Considering the impacts of revisions to ISA 500 on ISA 240 with respect to audit evidence obtained from the external confirmation process.</li> <li>Revising the existing guidance when there are non-responses.</li> <li>Emphasizing the usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud.</li> </ul>		<ul style="list-style-type: none"> <li>Clarifies the relationship with ISA 505.<sup>21</sup> The application material includes guidance and examples that: <ul style="list-style-type: none"> <li>Are modernized for current practice and developments in technology; and</li> <li>Addresses fraud considerations for external confirmation procedures.</li> </ul> </li> </ul>	
<b>B.23: Development of Non-Authoritative Guidance – Presumption of Fraud Risk in Revenue Recognition</b>			
<b>B.24: Development of Non-Authoritative Guidance – Using Automated Tools and Techniques to Perform Analytical Procedures</b>			
<b>C. Project Objective: Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures.</b>			

<sup>21</sup> ISA 505, *External Confirmations*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p><b>C.25: Requirements and Application Material – Professional Skepticism</b></p> <p>Enhance requirements and application material in ISA 240 to reinforce more robust exercise of professional skepticism when performing procedures related to fraud, including:</p> <ul style="list-style-type: none"> <li>Enhancing requirements and application material in ISA 240 for the auditor to design and perform procedures that is not biased towards obtaining audit evidence that may be corroborative or towards excluding evidence that may be contradictory.</li> <li>Explaining the ‘ramp up’ of procedures when fraud is identified or suspected in the application material.</li> </ul>	<p>Paras. 12–13, 19–21, 43, A14–A15, A25–A30</p>	<ul style="list-style-type: none"> <li>Added an introductory paragraph, which draws on the approach adopted in paragraph 7 of ISA 220 (Revised) and paragraph 9 of ISA 600 (Revised). The paragraph clarifies that professional skepticism supports the quality of judgments made by the engagement team when exercising their professional judgment in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud.</li> <li>Removed the reference to “notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance” to emphasize that the exercise of professional skepticism requires the auditor to, among other things, approach each audit with a “fresh pair of eyes.”</li> <li>Removed the reference to “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” from the conditional requirement which deals with the authenticity of records and documents to apply a fraud lens to the principle in ISA 200, paragraph A24.</li> <li>Added a requirement for the auditor to remain alert throughout the audit for information that is indicative of fraud or suspected fraud.</li> <li>Added a requirement for the auditor to design and</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability</i></li> <li><i>Comprehensiveness</i></li> <li><i>Clarity and conciseness</i></li> <li><i>Implementability</i></li> <li><i>Coherence</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		<p>perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may be contradict such assertions.</p> <ul style="list-style-type: none"> <li>• Added application material: <ul style="list-style-type: none"> <li>○ Explaining the relationship with relevant guidance on professional judgment in ISQM 1 and ISA 220 (Revised).</li> <li>○ Related to the attribute of authenticity of records and documents, included examples of conditions that may lead the auditor to believe that a record or document is not authentic or that the terms in the document have been modified but not disclosed to the auditor.</li> <li>○ Explaining how fraud, suspected fraud or alleged fraud may be identified or otherwise come to the auditor's attention.</li> <li>○ Addressed circumstances or threats to relevant ethical requirements that may be encountered at, or near the end of the audit.</li> </ul> </li> </ul>	
<b>C.26: Development of Non-Authoritative Guidance – Professional Skepticism</b>			
<b>D. Project Objective: Enhance transparency on fraud-related procedures where appropriate, including strengthening</b>			

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<b>communications with TCWG and the reporting requirements in ISA 240 and other relevant ISAs.</b>			
<b>D.27: Requirements and Application Material – Transparency in the Required Communications with TCWG and in the Auditor’s Report</b>			
<ul style="list-style-type: none"> <li>• Enhance requirements and application material in ISA 240 to strengthen required communications with TCWG, including: <ul style="list-style-type: none"> <li>○ Enhancing the requirements in ISA 240 for specific discussions with TCWG about the entity’s risks of material misstatement due to fraud and to encourage more appropriate two-way communication. Enhancements could include, for example, explicit discussions about: <ul style="list-style-type: none"> <li>▪ Susceptibilities to misstatement due to management bias, and corroborating inquiries of management with TCWG.</li> <li>▪ The auditor’s evaluation of the entity’s</li> </ul> </li> </ul> </li> </ul>	<p>Paras. 25, 30, 34(c) – 34(d), 54, A39–A43, A73, A75–A78,</p>	<ul style="list-style-type: none"> <li>• Added an overarching requirement to communicate with management and TCWG matters related to fraud at appropriate times throughout the audit engagement. Related application material highlights that the appropriate timing of the communications may vary depending on the significance and nature of the fraud-related matters and the expected action(s) to be taken by management or TCWG.</li> <li>• Enhanced requirements and application material related to making inquiries of TCWG about certain fraud related matters, when obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control.</li> <li>• Enhanced the requirement addressing inconsistent responses to inquiries of management or TCWG by expanding on the relevant requirement in ISA 500.</li> <li>• Added requirements and related application material, if the auditor identifies fraud or suspected fraud, for the engagement partner to:</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Relevance</i></li> <li>• <i>Implementability</i></li> <li>• <i>Coherence</i></li> </ul>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<p>components of internal control (when performing risk assessment procedures in accordance with ISA 315 (Revised 2019)).</p> <ul style="list-style-type: none"> <li>○ Enhancing the requirements in ISA 240 for the auditor to assess whether the remediation measures taken by management and TCWG for identified or suspected fraud are appropriate.</li> <li>○ Enhancing the requirements in ISA 240 to emphasize the ongoing nature of communications with TCWG about fraud throughout the audit.</li> <li>○ Clarifying in the application material of ISA 240 that effective participation by TCWG is influenced by their independence from management and their ability to objectively evaluate the actions of management.</li> </ul>		<ul style="list-style-type: none"> <li>○ Make inquiries about the matter with an appropriate level of management that is at least one level above those involved, and TCWG.</li> <li>○ If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances.</li> <li>● Added application material that: <ul style="list-style-type: none"> <li>○ Emphasizes that robust two-way communication between management or TCWG and the auditor assists in the identification of risks of material misstatements due to fraud.</li> <li>○ Explains that the extent of auditor’s communications with management and TCWG depends on the fraud-related facts and circumstances of the entity, as well as the progress and outcome of the fraud-related audit procedures performed in the audit engagement.</li> <li>○ Clarifies that the effectiveness of the oversight by TCWG is influenced by their objectivity, including independence from management, and their familiarity with the controls management has put in place to prevent or</li> </ul> </li> </ul>	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
		detect fraud.	
<ul style="list-style-type: none"> <li>• Explore<sup>22</sup> revisions to requirements and enhancements to application material to determine the need for more transparency in the auditor’s report describing fraud-related matters, and if needed, how this may be done, including: <ul style="list-style-type: none"> <li>○ Exploring what changes may be needed to better describe the auditor’s responsibilities and procedures related to fraud in an audit of financial statements, including: <ul style="list-style-type: none"> <li>▪ Additional outreach with investor groups as well as other relevant stakeholders about the need for more transparency in the auditor’s report, and how this can be done.</li> </ul> </li> </ul> </li> </ul>	Paras. 61–64, A165–A182	<ul style="list-style-type: none"> <li>• Added a separate section in proposed ISA 240 (Revised) (Implications for the auditor’s report) to emphasize the importance of transparency in the auditor’s report related to fraud.</li> <li>• Added requirements and application material that expand on ISA 701<sup>23</sup> and strengthen the requirements for the auditor to report fraud related KAMs, including requirements for the auditor to: <ul style="list-style-type: none"> <li>○ Determine, from the matters related to fraud communicated with TCWG, those matters that required significant auditor attention in performing the audit.</li> <li>○ Determine, from the matters which required significant auditor attention in performing the audit, were of most significance in the audit of the financial statements of the current period and therefore are key audit matters.</li> <li>○ Use an appropriate subheading that clearly describes that the matter relates to fraud, in the Key Audit Matters section of the auditor’s</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Relevance</i></li> <li>• <i>Implementability</i></li> <li>• <i>Enforceability</i></li> <li>• <i>Coherence</i></li> </ul>

<sup>22</sup> The term "explore" is used here because this is an area where significant mixed views were expressed by stakeholders and during Board deliberations on the need for enhanced transparency in the auditor’s report and will require further consideration by the Fraud TF and the Board before possible actions can be proposed.

<sup>23</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) <sup>13</sup>	Key Changes Proposed (Ref. Agenda Item 2–A)		Qualitative Standard-Setting Characteristics Considered <sup>14</sup>
	Paragraph	Description	
<ul style="list-style-type: none"> <li>▪ Consideration of changes made by others in different jurisdictions.</li> <li>○ Considering revisions to clarify the interaction of key audit matters and fraud-related matters.</li> </ul>		<p>report.</p> <ul style="list-style-type: none"> <li>○ If there are no key audit matters related to fraud to communicate in the Key Audit Matters section of the auditor’s report, add a statement to that regard.</li> <li>• The application material steers the auditor to communicate fraud related matters as a key audit matter by clarifying that:                             <ul style="list-style-type: none"> <li>○ Matters related to fraud are often matters that require significant auditor attention; and</li> <li>○ As users of financial statements have highlighted their interest in matters related to fraud, these matters are ordinarily of most significance in the audit of the financial statements of the current period and therefore are key audit matters.</li> </ul> </li> </ul>	

**Approach for the Walkthrough of Agenda Items 2–A and 2–C**

The table below shows the approach for the walkthrough of proposed ISA 240 (Revised) as presented in **Agenda Item 2–A**, including the proposed conforming and consequential amendments arising from proposed ISA 240 (Revised) as presented in **Agenda Item 2–C**.

Batch No.	Subheading	Paragraphs in Agenda Items 2–A or 2–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
1	<b>Introduction</b>	<i>Paras. 1–16</i>	<i>Paras. A1–A18</i>	–
	<b>Objectives</b>	<i>Para. 17</i>	–	–
	<b>Definitions</b>	<i>Para. 18</i>	<i>Paras. A19–A24</i>	–
2	<b>Professional Skepticism</b>	<i>Paras. 19–21</i>	<i>Paras. A25–A32</i>	<b>Section I–A</b>
	<b>Engagement Resources</b>	<i>Para. 22</i>	<i>Paras. A33–A36</i>	–
	<b>Engagement Performance</b>	<i>Paras. 23–24</i>	<i>Paras. A37–A38</i>	–
	<b>Ongoing Nature of Communications with Management and Those Charged with Governance</b>	<i>Para. 25</i>	<i>Paras. A39–A43</i>	–
3	<b>Risk Assessment Procedures and Related Activities</b>	<i>Paras. 26–32</i>	<i>Paras. A44–A58</i>	–
	<b>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control</b>	–	–	–

Batch No.	Subheading	Paragraphs in Agenda Items 2–A or 2–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
	<i>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework</i>	<i>Para. 33</i>	<i>Paras. A59–A67</i>	–
<b>4</b>	<i>Understanding the Components of the Entity’s System of Internal Control</i>	–	–	–
	• Control Environment	<i>Para. 34</i>	<i>Paras. A68–A78</i>	–
	• The Entity’s Risk Assessment Process	<i>Para. 35</i>	<i>Paras. A79–A91</i>	–
	• The Entity’s Process to Monitor the System of Internal Control	<i>Para. 36</i>	<i>Paras. A92–A94</i>	–
	• The Information System and Communication	<i>Para. 37</i>	<i>Paras. A95–A97</i>	–
	• Control Activities	<i>Para. 38</i>	<i>Paras. A98–A102</i>	<b>Section I–B</b>
	<i>Control Deficiencies Within the Entity’s System of Internal Control</i>	<i>Para. 39</i>	<i>Paras. A103–A104</i>	<b>Section I–B</b>
	<b>Identifying and Assessing the Risks of Material Misstatement due to Fraud</b>	<i>Paras. 40–42</i>	<i>Paras. A105–A114</i>	–
<b>5</b>	<b>Responses to the Assessed Risks of Material Misstatement Due to Fraud</b>	–	–	–
	<i>Designing and Performing Audit Procedures in a Manner That Is Not Biased</i>	<i>Para. 43</i>	–	–

Batch No.	Subheading	Paragraphs in Agenda Items 2–A or 2–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
	<i>Unpredictability in the Selection of Audit Procedures</i>	<i>Para. 44</i>	<i>Paras. A115–A116</i>	–
	<i>Overall Responses</i>	<i>Paras. 45–46</i>	<i>Para. A117</i>	–
	<i>Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level</i>	<i>Para. 47</i>	<i>Paras. A118–A125</i>	–
	<i>Audit Procedures Responsive to Risks Related to Management Override of Controls</i>	<i>Para. 48</i>	–	–
	• Journal Entries and Other Adjustments	<i>Paras. 49–50</i>	<i>Paras. A126–A137</i>	–
	• Accounting Estimates	<i>Paras. 51–52</i>	<i>Paras. A138–A142</i>	–
	• Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual	<i>Para. 53</i>	<i>Para. A143</i>	–
<b>6</b>	<b>Fraud or Suspected Fraud</b>	<i>Paras. 54–58</i>	<i>Paras. A144–A157</i>	<b>Section I–C</b>
	<b>Evaluation of the Sufficiency and Appropriateness of Audit Evidence</b>	<i>Para. 59</i>	<i>Paras. A158–A160</i>	–
	<b>Auditor Unable to Continue the Audit Engagement</b>	<i>Para. 60</i>	<i>Paras. A161–A164</i>	–
<b>7</b>	<b>Implications for the Auditor’s Report</b>	<i>Paras. 61–64</i>	<i>Paras. A165–A182</i>	–

Batch No.	Subheading	Paragraphs in Agenda Items 2–A or 2–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
8	<b>Written Representations</b>	<i>Para. 65</i>	<i>Paras. A183–A184</i>	–
	<b>Communications with Management and Those Charged with Governance</b>	<i>Paras. 66–68</i>	<i>Paras. A185–A191</i>	–
	<b>Reporting to an Appropriate Authority Outside the Entity</b>	<i>Para. 69</i>	<i>Paras. A192–A196</i>	–
	<b>Documentation</b>	<i>Para. 70</i>	<i>Para. A197</i>	–
9	<b>Appendices</b>	–		–
	<i>Examples of Fraud Risk Factors</i>	<i>Appendix 1</i>		–
	<i>Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud</i>	<i>Appendix 2</i>		–
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