

# Agenda Item 10-A

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

This paper summarizes the Fraud Task Force's (Fraud TF) significant deliberations and resulting changes that have been made to proposed ISA 240 (Revised) since the September 2024 IAASB meeting, as reflected in **Agenda Item 10-B**. Unless otherwise indicated, references to "paragraph(s)" within this agenda item refer to paragraph(s) within proposed ISA 240 (Revised).

Reference	Significant Changes and the Rationale for Those Changes
<b>Introduction</b>	
<b>Paragraph 1</b>	<ul style="list-style-type: none"> <li>The Fraud TF streamlined the last sentence of the paragraph to avoid confusion where there are separate tasks or actions to be taken by the auditor when applying the requirement included proposed ISA 240 (Revised).</li> </ul>
<b>Paragraph 3</b>	<ul style="list-style-type: none"> <li>The Fraud TF accepted an edit proposed by a Board member to further elaborate on why management may be motivated to manipulate earnings.</li> </ul>
<b>Paragraph 12</b>	<ul style="list-style-type: none"> <li>The Fraud TF agreed with a proposed edit by respondents to ED-240 to reinstate text from paragraph 8 of extant ISA 240 which serves to remind the auditor that it is important to maintain professional skepticism throughout the audit, considering the potential for management override of controls, and recognizing that audit procedures that are effective for detecting error may not be effective in detecting fraud.</li> </ul>
<b>Paragraph 14</b>	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part A – Section V, paragraphs 65(b) and 65(c)</b></li> </ul>
<b>Paragraph 16</b>	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part A – Section VIII, paragraphs 106–107</b></li> </ul>
<b>Requirements</b>	
<b>Professional Skepticism</b>	
<b>Paragraph 19–21B</b>	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part A-Section I, paragraphs 29–31</b></li> </ul>

Reference	Significant Changes and the Rationale for Those Changes
<b>Engagement Performance</b>	
<b>Paragraphs 23–24</b>	<ul style="list-style-type: none"> <li>To respond to feedback by respondents to ED-240, the Fraud TF merged paragraph 23 and 24 to streamline the requirements and to remove aspects of paragraph 23 that were duplicative of the foundational requirement from ISA 220 (Revised)<sup>1</sup>.</li> </ul>
<b>Risk Assessment Procedures and Related Activities</b>	
<b>Paragraph 29</b>	<ul style="list-style-type: none"> <li>Paragraph 29(a)(iii): The Fraud TF added “may” as the presumption of risk of material misstatements (ROMMs) due to fraud in revenue recognition is not always present.</li> <li>Paragraph 29(b): The Fraud TF removed “including allegations of fraud” because paragraph A10 of the standard clarifies that the auditor treats allegations of fraud as suspected fraud (i.e., for the purposes of applying the fraud or suspected fraud requirements) and is therefore not necessary in this paragraph. The remaining references to allegations of fraud in the proposed standard are retained deliberately. For example, inquiries of management about fraud or suspected fraud must also refer to allegations of fraud because the construct: allegations of fraud = suspected fraud only applies within the context of the ISAs and from the auditor’s vantage point.</li> </ul>
<b>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control</b>	
<b>Paragraph 33</b>	<ul style="list-style-type: none"> <li>The Fraud TF changed the structure of the paragraph to align with the foundational requirement in ISA 315 (Revised 2019)<sup>2</sup> where the auditor first obtains an understanding of the entity and its environment and the applicable financial reporting framework and the entity’s accounting policies, and then reflects on the matters that may lead to an increased susceptibility to misstatement.</li> </ul>

<sup>1</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>2</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Reference	Significant Changes and the Rationale for Those Changes
<b>Paragraph 34</b>	<ul style="list-style-type: none"> <li>The Fraud TF changed the structure of the paragraph to align with the other requirements in this section of proposed ISA 240 (Revised), where there is a bullet for ‘obtaining an understanding’ and a bullet for the auditor’s inquiries.</li> <li>The Fraud TF replaced the term “whistleblower program” with “fraud reporting program”. See <b>Agenda Item 10 – Part B – Section I, paragraphs 110–111</b>.</li> <li>The Fraud TF streamlined paragraph 34(d) by combining sub-bullets (i) and (iA) given that the two requirements were similar as both requirements included inquiries to obtain knowledge of any allegations of fraud.</li> </ul>
<b>Paragraph 37</b>	<ul style="list-style-type: none"> <li>The Fraud TF included “and other adjustments” for consistency throughout the standard.</li> </ul>
<b>Identifying and Assessing the Risks of Material Misstatement due to Fraud</b>	
<b>Paragraph 40</b>	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part B – Section I, paragraphs 112–117</b></li> </ul>
<b>Responses to the Assessed Risks of Material Misstatement Due to Fraud</b>	
<b>Paragraph 47</b>	<ul style="list-style-type: none"> <li>The Fraud TF added “based on and are” to align with wording used in the foundational requirement in ISA 330<sup>3</sup>.</li> </ul>
<b>Paragraph 48</b>	<p><i>Subheading</i></p> <p>The Fraud TF aligned the subheading with the subheading in the risk identification and assessment section of the standard.</p>
<b>Paragraph 50</b>	<ul style="list-style-type: none"> <li>The Fraud TF added a reference to paragraph A95 given that the guidance is relevant when designing and performing audit procedures to test the appropriateness of journal entries.</li> <li>See <b>Agenda Item 10 – Part A – Section VI-B, paragraph 74</b>.</li> </ul>
<b>Paragraph 51</b>	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part A – Section VI-A, paragraph 71(d)</b>.</li> </ul>

<sup>3</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

Reference	Significant Changes and the Rationale for Those Changes
<b>Communications with Management and Those Charged with Governance</b>	
<b>Paragraph 67</b>	<ul style="list-style-type: none"> <li>Based on feedback received from a Board member, the Fraud TF decided to reverse the changes that had been made to this requirement proposed at the September 2024 IAASB meeting. The Fraud TF agreed that excluding from the communication requirements fraud or suspected fraud involving management when those matters are determined to be clearly inconsequential had weakened the requirement. This change ensures that all fraud or suspected fraud involving management and employees who have significant roles in internal control will be communicated to those charged with governance.</li> </ul>
<b>Application and Other Explanatory Material</b>	
<b>Introduction</b>	
<b>Paragraph A4</b>	<ul style="list-style-type: none"> <li>The Fraud TF proposed an edit to clarify that the misapplication has to deal with misapplication of the applicable financial reporting framework rather than the entity's accounting principles.</li> </ul>
<b>Paragraph A9</b>	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10– Part A – Section VI-E, paragraph 85</b></li> </ul>
<b>Paragraph A10</b>	<ul style="list-style-type: none"> <li>The Fraud TF enhanced this paragraph to clarify that allegations of fraud, which are treated by the auditor as suspected fraud for the purposes of applying the fraud or suspected fraud requirements in paragraph 55–58, may come to the auditor's attention as a result of obtaining an understanding of the entity's fraud reporting program as required by paragraph 33(a)(ii).</li> </ul>
<b>Paragraph A16A</b>	<ul style="list-style-type: none"> <li>Edits to the paragraph and relevant footnote resulted from conforming amendments to extant ISA 240 in the 2023–2024 version of the IAASB Handbook.</li> </ul>
<b>Definitions</b>	
<b>Paragraph A21A</b>	<ul style="list-style-type: none"> <li>The Fraud TF streamlined the application material based on feedback received from Board members. The term IT systems was replaced by IT environment that affects financial reporting to use consistent terminology with ISA 315 (Revised 2019). The Fraud TF also removed the reference to "harm the entity's reputation" as it was perceived as impracticable for auditors to consider all the possible ways that an entity's reputation could be</li> </ul>

Reference	Significant Changes and the Rationale for Those Changes
	harmed in an audit.
<b>Paragraphs A22</b>	<ul style="list-style-type: none"> <li>The Fraud TF removed the first sentence as it duplicates what is in paragraph A23A.</li> <li>In addition, the Fraud TF changed the structure to make the relationship with inherent risk and control risk clearer based on comments from respondents to ED-240 and comments from the Board.</li> </ul>
<b>Paragraphs A23</b>	<ul style="list-style-type: none"> <li>The Fraud TF removed the reference to <b>Appendix 1</b> as paragraph A23A also has a reference to this appendix.</li> </ul>
<b>Paragraphs A23A</b>	<ul style="list-style-type: none"> <li>The Fraud TF moved paragraph A103B to paragraph A23A as the application material relates to examples of fraud risk factors and better fits when attached to the definition of fraud risk factors.</li> </ul>
<b>Professional Skepticism</b>	
<b>Paragraph A24</b>	<ul style="list-style-type: none"> <li>The Fraud TF made an edit to ensure the use of consistent language in this application material paragraph and the requirement in paragraph 19.</li> </ul>
<b>Paragraph A25</b>	<ul style="list-style-type: none"> <li>The Fraud TF added material to this paragraph to more comprehensively describe the three paragraphs cited in ISA 220 (Revised) (i.e., paragraph A35–A37). Specifically, paragraph A36 deals with unconscious and conscious biases that may affect the engagement team’s professional judgements.</li> </ul>
<b>Paragraphs A25E</b>	<ul style="list-style-type: none"> <li>The Fraud TF relocated this application material paragraph to be in front of A26 for the reasons described in <b>Agenda Item 10 – Part A – Section I, paragraphs 25</b></li> </ul>
<b>Paragraph A28</b>	<ul style="list-style-type: none"> <li>The Fraud TF is proposing to add “inquiries of management” as a procedure that the auditor would consider when “investigating further” based on an edit proposed by a respondent to ED-240.</li> </ul>
<b>Paragraph A28A</b>	<ul style="list-style-type: none"> <li>The Fraud TF added application material to clarify that when the results of audit procedures performed in accordance with paragraph 21B indicate that a record or document is not authentic or that the terms of a document have been modified, the auditor performs procedures in accordance with paragraph 55–58.</li> </ul>
<b>Engagement Resources</b>	

Reference	Significant Changes and the Rationale for Those Changes
Paragraph A34	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part A – Section IV-D paragraph 81</b></li> </ul>
Paragraph A37	<ul style="list-style-type: none"> <li>The Fraud TF streamlined the language in the examples and expanded on the last bullet to reflect edits from respondents to ED-240 to emphasize that it is beneficial to have experienced engagement team members perform inquiries related to fraud. This paragraph was also moved from Engagement Performance to the Engagement Resources section as it relates to the allocation of the team resources.</li> </ul>
<b>Risk Assessment Procedures and Related Activities</b>	
Paragraph A52A	<ul style="list-style-type: none"> <li>The Fraud TF added guidance to help auditors discuss examples of how management may be able to override controls, and that management override of controls may happen beyond journal entries and other adjustments, significant estimates or transactions outside the normal course of business.</li> </ul>
Paragraph A54	<ul style="list-style-type: none"> <li>The Fraud Task Force removed the last sentence of the introductory paragraph for consistency with other application material that is included in the example.</li> <li>First example. Based on comments from the Board, the Fraud TF removed the example as it was not reflecting the analytical procedure currently performed in practice.</li> <li>Third example. Based on comments from the Board, the Fraud TF replaced the example as the previous example may be considered a test of detail and not an analytical procedure.</li> </ul>
<b>Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control</b>	
Paragraphs A69A, A69B, A70	<ul style="list-style-type: none"> <li>See <b>Agenda Item 10 – Part B – Section I, paragraphs A110–A111</b></li> </ul>
Paragraphs A71, A72 and A75	<ul style="list-style-type: none"> <li>Based on comments from the Board, the Fraud TF replaced the reference to the entity's risk assessment process with a reference to the controls that address the risks of fraud to be consistent with the requirement that the application material relates to.</li> </ul>

Reference	Significant Changes and the Rationale for Those Changes
<b>Paragraph A84</b>	<ul style="list-style-type: none"> <li>The Fraud TF has added new application material relating to third-party fraud as described in <b>Part B – Section III, paragraphs A126–A129</b></li> </ul>
<b>Paragraph 103C</b>	<ul style="list-style-type: none"> <li>The Fraud TF added a factor related to the fraud reporting program given the importance of such a program to help constrain improper conduct by management.</li> </ul>
<b>Identifying and Assessing the Risks of Material Misstatement due to Fraud</b>	
<b>Paragraph 103E</b>	<ul style="list-style-type: none"> <li>Based on comments from respondents to ED-240 and comments from the Board, the Fraud TF added new application material to provide guidance on how fraud risk factors lead to identifying ROMMs due to fraud.</li> </ul>
<b>Paragraph A104</b>	<ul style="list-style-type: none"> <li>Based on comments from the Board, the Fraud TF added a new example focusing on assertions and related classes of transactions that may be susceptible to material misstatement due to fraud in the context of a smaller or less complex entity to ensure that the standard is scalable.</li> </ul>
<b>Paragraph A105</b>	<ul style="list-style-type: none"> <li>Based on comments from respondents to ED-240, the Fraud TF deleted the application material as it was deemed duplicative of paragraph 35 of ISA 315 (Revised 2019).</li> </ul>
<b>Paragraph A106</b>	<ul style="list-style-type: none"> <li>Based on comments from respondents to ED-240, the Fraud TF enhanced the wording in the lead-in to better reflect public sector risks and better connect the lead-in with the example.</li> </ul>
<b>Paragraph A111</b>	<ul style="list-style-type: none"> <li>The Fraud TF provided additional guidance on when it may be appropriate for the auditor to rebut the presumption of ROMM due to fraud in revenue recognition. The Fraud TF elaborated in two of the four examples included in the standard by explaining that: <ul style="list-style-type: none"> <li>Revenue is not a key performance indicator</li> <li>There are no significant opportunities for management to manipulate revenue</li> </ul> </li> <li>Given that the Fraud TF elaborated the examples: <ul style="list-style-type: none"> <li>The summary at the end of the example box that was added for the September 2024 Board meeting was deleted, to limit duplication; and</li> </ul> </li> </ul>

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> <li>○ The other two examples were deleted as the description would have been similar.</li> </ul>
<b>Responses to the Assessed Risks of Material Misstatement Due to Fraud</b>	
<b>Paragraph A114</b>	<ul style="list-style-type: none"> <li>• Based on comments from respondents to ED-240, the Fraud TF added “substantive” to clarify that this refers to substantive procedures.</li> </ul>
<b>Paragraph A116</b>	<ul style="list-style-type: none"> <li>• Based on comments from respondents to ED-240, the Fraud TF replaced “material” with “significant” for consistency.</li> </ul>
<b>Paragraph A117</b>	<ul style="list-style-type: none"> <li>• The Fraud TF removed the first example in response to comments from respondents to ED-240 that the example did not provide any guidance given that it is not sufficiently detailed and does not have a fraud lens.</li> </ul>
<b>Paragraph A122</b>	<ul style="list-style-type: none"> <li>• The Fraud TF streamlined the examples in response to comments from respondents to ED-240 to enhance clarity.</li> </ul>
<b>Paragraph A123A</b>	<ul style="list-style-type: none"> <li>• See <b>Agenda Item 10 – Part B – Section I, paragraph 117</b></li> </ul>
<b>Paragraphs A128–A129A</b>	<ul style="list-style-type: none"> <li>• See <b>Agenda Item 10– Part A – Section VI-B, paragraph 74</b></li> </ul>
<b>Paragraph A138</b>	<ul style="list-style-type: none"> <li>• Based on comments from respondents to ED-240, the Fraud TF removed the last example as it was deemed similar to the first example provided in the paragraph. The example was also deemed duplicative of examples provided in paragraph A134 of ISA 540 (Revised)<sup>4</sup></li> </ul>
<b>Fraud or Suspected Fraud</b>	
<b>Paragraph A149A</b>	<ul style="list-style-type: none"> <li>• See <b>Agenda Item 10 – Part B – Section II, paragraph 121</b></li> </ul>

<sup>4</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*



Reference	Significant Changes and the Rationale for Those Changes
<b>Paragraph A152</b>	<ul style="list-style-type: none"> <li>The Fraud TF relocated the first example out of this paragraph because the example describes a determination by the engagement partner relating to a matter determined to be clearly inconsequential and making determinations about clearly inconsequential matters is inconsistent with the requirement in paragraph 56. The example was relocated to application material relating to paragraph 55.</li> <li>The Fraud TF relocated the second example to be below paragraph A153 because it fits better with that paragraph.</li> </ul>
<b>Paragraph A157A</b>	<ul style="list-style-type: none"> <li>The Fraud TF made edits to this paragraph to respond to comments received from Board members.</li> </ul>
<b>Auditor Unable to Continue the Audit Engagement</b>	
<b>Paragraph A158</b>	<ul style="list-style-type: none"> <li>The Fraud TF clarified the language in the second bullet by replacing ‘tests’ with ‘procedures performed’ and reworded the end of the bullet to refer to a material and pervasive fraud as some respondents believed the reference to significant risks was confusing.</li> <li>The Fraud TF removed the fourth bullet because it did not have a sufficiently specific fraud lens.</li> </ul>
<b>Communications with Management and Those Charged with Governance</b>	
<b>Paragraph A185</b>	<ul style="list-style-type: none"> <li>The Fraud TF made edits to this paragraph to conform to the changes made to paragraph 67.</li> </ul>
<b>Conforming and Consequential Amendments</b>	
<b>ISA 315 (Revised 2019)</b>	<ul style="list-style-type: none"> <li>Appendix 3: Given the proposed use of the term ‘fraud reporting program’, the reference to ‘whistle blower procedures’ was replaced by ‘a fraud reporting program’.</li> </ul>
<b>ISA 540 (Revised)</b>	<ul style="list-style-type: none"> <li>Paragraph A136: Conforming amendments that were proposed before the publication of ED-240 were haphazardly not shown as a track change.</li> </ul>

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Reference	Significant Changes and the Rationale for Those Changes
<b>ISA 600 (Revised)<sup>5</sup></b>	<ul style="list-style-type: none"> <li>Paragraph 45(h): In response to enhancements to paragraphs 55 and 56 of proposed ISA 240 (Revised), the Fraud TF updated the requirement about the communication from component auditors to the group auditor. It now includes the requirement to communicate fraud or suspected fraud, other than fraud or suspected fraud determined to be clearly inconsequential.</li> </ul>
<b>ISA 700 (Revised)<sup>6</sup> and ISA 800 (Revised)<sup>7</sup></b>	<ul style="list-style-type: none"> <li>Illustrative auditor's reports: The following changes were made to the illustrative auditor's reports: <ul style="list-style-type: none"> <li>Deleted "Including Matter Related to Fraud" given the Board's decision in its September 2024 meeting to remove this from the header of the key audit matter section.</li> <li>In the Auditor's Responsibilities for the Audit of the Financial Statements section, changed the references to 'the auditor' or 'the auditor's' to 'we' or 'our' to be consistent with the phrasing in the auditor's reports.</li> </ul> </li> </ul>
<b>ISA 701<sup>8</sup></b>	<ul style="list-style-type: none"> <li>Given the Board's decision to remove "including matters related to Fraud" from the proposed title of the Key Audit Matters section of the auditor's report, the following changes are proposed: <ul style="list-style-type: none"> <li>ISA 701 – Paragraph 11 and 16: Deleted "Including Matter Related to Fraud" given the Board's decision in its September 2024 meeting to remove this from the header of the key audit matter section.</li> <li>ISA 701 – Paragraph A58: Deleted "Including Matters Related to Fraud" from the title of the section given the Board's decision in its September 2024 meeting to remove this from the header of the key audit matter section.</li> <li>ISA 701 – Paragraph A58A: Removing paragraph A58A as that paragraph related to paragraph A177 in proposed ISA 240 (Revised) and was removed.</li> </ul> </li> </ul>
<b>ISRE 2410<sup>9</sup></b>	<ul style="list-style-type: none"> <li>The Fraud TF clarified that paragraph 34(e) relates to paragraph A89 of proposed ISA 240 (Revised) and</li> </ul>

<sup>5</sup> ISA 600 (Revised), *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

<sup>6</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>7</sup> ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>9</sup> International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

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Reference	Significant Changes and the Rationale for Those Changes
	updated the footnote accordingly.
<b>ISAE 3000 (Revised)<sup>10</sup></b>	<ul style="list-style-type: none"> <li>Paragraph A86: Respondents to ED-240 noted that it may not be appropriate to replace “risk of fraud” with “risk of material misstatement due to fraud” as limited assurance engagements do not have a requirement to identify risks of material misstatement. Given that ISAE 3000 (Revised) is applicable for both reasonable and limited assurance engagements, the Fraud TF reinstated “risk of fraud”.</li> </ul>

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<sup>10</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audit or Review of Historical Financial Information