

Issues and Due Process Considerations

Objective

The objective of the IAASB discussion in March 2025 is to approve proposed International Standard on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* in **Agenda Item 2-B**, and the resulting conforming and consequential amendments to other ISAs are outlined in **Agenda Item 2-D**.

Request for Board Comments in Advance of the Meeting

Board members are requested to communicate any significant matters to the Fraud Task Force (Fraud TF) Chair and Staff by **Thursday, March 13, 2025**. This request is intended to assist the Fraud TF for the turnaround of the final pronouncement. All significant matters should still be raised and discussed in the Board plenary session on Tuesday, March 18, 2025, to ensure that such matters are on the public record.

Approach to the Board Discussion

The Fraud TF Chair and Staff will walk through **Agenda Item 2-B** taking comments on the requirements, the related application material paragraphs and appendices, in the order outlined in **Appendix 2** to this paper. Following the walk through of the proposed standard, the Fraud TF Chair will take comments from the Board on the proposed conforming and consequential amendments (see **Agenda Item 2-D**). After the Board discussion on **Tuesday, March 18, 2025**, the Fraud TF may bring targeted matters for further discussion with the Board on **Wednesday, March 19, 2025**. The matters to be brought back to the Board will depend on the nature and extent of the Board's comments.

The Fraud TF expects to distribute an updated draft of proposed ISA 240 (Revised), and the proposed conforming and consequential amendments, by 3:30 pm EDT on **Thursday, March 20, 2025**. These documents will be used for the approval session on **Friday, March 21, 2025**. After the vote on the approval of proposed ISA 240 (Revised), if the final pronouncement is approved, the Board will be asked whether the standard needs to be re-exposed (see **Part C**).

Introduction

Background

1. Since the December 2024 IAASB meeting, the Fraud TF continued to revise proposed ISA 240 (Revised) to respond to comments received from the Board and stakeholders during outreach events. The Fraud TF's activities since the December 2024 IAASB meeting are included in **Appendix 1** to this agenda item.
2. The draft December 2024 IAASB meeting minutes are available in [Agenda Item 1](#) on the *IAASB Quarterly Board Meeting – March 18–21, 2025* webpage.

Materials Presented

3. This paper sets out the following:

- **Part A:** Explanation of significant changes to the draft of proposed ISA 240 (Revised) in **Agenda Item 2-B** since the December 2024 IAASB meeting for more prominent significant issues. All other significant changes to **Agenda Item 2-B** are explained in the Significant Deliberations and Changes document (see **Agenda Item 2-A**);
- **Part B:** Explanation of the more prominent significant conforming and consequential amendments to other IAASB standards proposed by the Fraud TF in **Agenda Item 2-D** since the December 2024 IAASB meeting. All other significant conforming and consequential amendments are explained in the Summary of Significant Deliberations and Changes document (see **Agenda Item 2-A**);
- **Part C:** Due process considerations; and
- **Part D:** Next steps.

4. This agenda item includes the following appendices and other agenda items:

Appendices	
Appendix 1	Fraud TF members and supporting IAASB Staff and activities
Appendix 2	Approach for the walkthrough of Agenda Item 2-B during the March 2025 IAASB meeting
Appendix 3	Mapping of key changes to proposed ISA 240 (Revised) to the actions and objectives of the project proposal that support the public interest
Other Agenda Items	
Agenda Item 2-A	Summary of significant deliberations and changes
Agenda Item 2-B	Proposed ISA 240 (Revised) (Marked)
Agenda Item 2-C	Proposed ISA 240 (Revised) (Clean)
Agenda Item 2-D	Conforming and consequential amendments
Agenda Item 2-E (Supplemental)	Comparison between requirements of ED-240 ¹ and proposed ISA 240 (Revised)

¹ Exposure Draft (ED-240): [Proposed International Standard on Auditing 240 \(Revised\), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs](#).

Coordination Activities

International Ethics Standards Board for Accountants (IESBA)

5. Staff on the Fraud project and IESBA Staff met regularly throughout the project to discuss the ethics-related aspects of the draft of proposed ISA 240 (Revised). During Q1 2025, Staff on the Fraud project team updated IESBA Staff on all proposed revisions made to ED-240 relating to ethics-related requirements and application material. IESBA Staff were supportive of the proposed revisions.

IAASB Task Forces and Consultation Groups

6. After the December 2024 IAASB meeting, the Fraud TF sought input from the IAASB's Professional Skepticism Consultation Group about whether the requirements and application material presented relating to professional skepticism in the draft of proposed ISA 240 (Revised) presented at the December 2024 IAASB meeting are sufficiently responsive to feedback received on the exposure draft. No additional matters for coordination were identified.
7. Before the December 2024 IAASB meeting, Staff on the Fraud project liaised with Staff on the Going Concern, PIE Track 2 and Technology projects. No additional matters for coordination were identified.

Project Objectives that Support the Public Interest

8. **Appendix 3** provides a table that compares the proposals made to enhance or clarify proposed ISA 240 (Revised) with the standard-setting actions included in the [project proposal](#). The purpose of the table is to map the standard-setting actions to the project objectives that support the public interest specified in the project proposal. In addition, the table highlights the qualitative standard-setting characteristics set out in paragraph 25 of the project proposal and those included in the Public Interest Framework (PIF)² that were used to assess the responsiveness of proposed ISA 240 (Revised) to the public interest.

Part A – Explanation of Significant Changes to the Draft of Proposed ISA 240 (Revised) Since December 2024

9. **Agenda Item 2-A** sets out an explanation for the changes made to proposed ISA 240 (Revised) reflected in **Agenda Item 2-B**, including changes that are responsive to comments from the Board during the December 2024 IAASB meeting and offline by Board members provided directly to IAASB Staff. In addition, Sections I and II below describe the Fraud TF's views and proposals relating to some of the more prominent significant issues that were considered by the Fraud TF following the December 2024 IAASB meeting. Specifically:
 - (a) Section I – Management override of controls.
 - (b) Section II – Linkage between proposed ISA 240 (Revised) with ISA 250 (Revised)³

² See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#)

³ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Section I - Management Override of Controls

Background

10. To demonstrate the integrated relationship between proposed ISA 240 (Revised) and ISA 315 (Revised 2019)⁴ and to make the auditor's risk identification and assessment process as it relates to fraud more robust, the IAASB restructured extant ISA 240 to follow a similar structure as ISA 315 (Revised 2019). In doing so, the requirement to identify risks of material misstatement (ROMM) due to fraud related to management override of controls (referred to as "risks of management override of controls" for the purpose of this agenda item) and assess such risk as significant risk (paragraph 32 of extant ISA 240) was relocated from the Responses to the Assessed ROMM due to Fraud section of the standard to the Identifying and Assessing ROMM due to Fraud section.
11. Although the requirement remained mostly unchanged from extant, respondents encouraged the IAASB to clarify whether the risks related to management override of controls exist at the financial statement level or at the assertion level for classes of transactions, account balances and disclosures.
12. At the September 2024 IAASB meeting, to address respondents' concerns, the Fraud TF clarified that the risks of management override of controls are significant risks indicating that they exist at the assertion level, since significant risks can only be at the assertion level in accordance with ISA 315 (Revised 2019). However, the Board noted that the proposed changes did not sufficiently address the concerns noted by respondents to ED-240.
13. To address the Board's comments, at the December 2024 IAASB meeting, the Fraud TF proposed new application material that explains that the auditor may, in addition to the presumed risks of management override of controls at the assertion level, determine that management override of controls has a pervasive effect on the financial statements and is therefore also a financial statement level risk. However, the Board had mixed views about this approach and directed the Fraud TF to further clarify whether the risks of management override of controls exist at the assertion or financial statement level. The Board noted that the requirements in proposed ISA 240 (Revised) must continue to be aligned with the foundational requirements included in ISA 315 (Revised 2019), while being implementable and operationalizable by auditors.

Potential Options for Advancing on the Risks of Management Override of Controls

14. The Fraud TF reflected on the comments made at the September and December 2024 IAASB meetings. The Fraud TF agreed that in all circumstances the risks of management override of controls are present in all audit engagements. The Fraud TF then discussed the following options to progress the draft standard forward:
 - (a) Risks of management override of controls are predetermined to exist at the assertion level;
 - (b) Risks of management override of controls are predetermined to at the financial statement level; and
 - (c) Risks of management override of controls are predetermined to exist at either the financial statement or assertion level based on the auditor's assessment.

These options and the Fraud TF's discussions are set out below.

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Option A: Risks of Management Override of Controls Are Predetermined at the Assertion Level

15. The Fraud TF noted the following points when considering if the risks of management override of controls exist at the assertion level:
- (a) Extant ISA 240 and ED-240 specified that the risks of management override of controls are significant risks. Based on ISA 315 (Revised 2019), the concept of significant risk only applies to ROMM at the assertion level. Therefore, specifying that the risks of management override of controls are at the assertion level is consistent with the extant requirement and aligns with ISA 315 (Revised 2019).
 - (b) Determining the relevant assertions and the related significant classes of transactions, account balances and disclosures allows the auditor to apply the requirement in a proportionate and scalable way for the specific circumstances of the audit engagement and the entity. However, feedback from the Board highlighted that in many instances, by its nature, the risk of management override of controls may impact several classes of transactions, account balances and disclosures and relevant assertions, thereby requiring the auditor to identify management override:
 - (i) As a ROMM at the assertion level in multiple instances. This would seem unnecessary, duplicative and impracticable (also considering the auditor’s subsequent responses to such risks); or
 - (ii) If it is pervasive, as a ROMM at the financial statement level which would undermine the purpose of identifying management override of controls as a significant risk.
 - (c) The Fraud TF discussed any unintended consequences with this approach and noted that auditors may focus the performance of paragraphs 47–52 on the specific accounts or assertion for which they identified the risks of management override of controls, thereby not perform the robust procedures expected from paragraphs 47–52. In addition, by specifying that the risks of management override of controls exist at the assertion level, the Fraud TF questioned whether there is a risk that auditors do not identify any financial statement level risk and may not perform the procedure set in paragraph 46.

Option B: Risks of Management Override of Controls Are Predetermined at the Financial Statement Level

16. The Fraud TF noted the following points when considering if the risks of management override of controls exist at the financial statement level:
- (a) The Fraud TF understands that some audit firms regard the risk of management override of controls as affecting multiple assertions and therefore exists at the financial statement level. Therefore, auditors respond to the risks by applying overall responses to that risk. In doing so, auditors use a “top down” approach, such as testing the appropriateness of journal entries and other adjustments from the entire population of entries.
 - (b) Stating that the risks of management override of controls exist at the financial statement level in the requirement indicates that the risks are pervasive in all audits. The Fraud TF noted that this may be considered disproportionate in some cases but that overall responses to address financial statement level risks can also be scaled according to the circumstances.
 - (c) For identified ROMMs at the financial statement level, the auditor is required to determine whether such risks affect the assessment of risks at the assertion level, as per paragraph 30(a) of ISA 315

(Revised 2019). When such ROMMs are identified at the assertion level, the auditor is required to treat these risks as significant risks, given that the ROMMs related to management override of controls are due to fraud. The auditor shall design and perform further audit procedures.

- (d) As financial statement level risks cannot be significant risks based on ISA 315 (Revised 2019), the risks of management override of controls will not be a “significant risk” which is a change from extant ISA 240 and ED-240. By not identifying management override of controls as a significant risk, there may be an impact on other requirements in the ISAs where there are requirements linked to significant risks.

Option C: Risks of Management Override of Controls Are Predetermined to Exist at Either the Financial Statement or Assertion Level Based on the Auditor’s Assessment

17. The Fraud TF also explored whether it would be more appropriate for the auditor to use professional judgement to determine whether, given the nature and circumstances of the engagement, the risks of management override of controls exist at the financial statement or at the assertion level, and noted the following:

- (a) The facts and circumstances will differ from engagement to engagement, and it may be appropriate to set the risks of management override of controls at the financial statement level for some engagements and at the assertion level for others. However, in all circumstances, when the auditor determines that risks of management override of controls exist at the financial statement level, the auditor is still required to determine whether the risks affect the assessment of risks at the assertion level in accordance with ISA 315 (Revised 2019).
- (b) One of the project objectives for revising ISA 240 was to promote consistent behavior and facilitate effective response to identified ROMM due to fraud.⁵ The Fraud TF is of the view that Option C may not be aligned with such objective as some auditors may determine that risks of management override of controls exists at the assertion level while others may determine that it exists at the financial statement level risk.

Fraud TF Views and Recommendations

18. The Fraud TF reflected on each option and, on balance, is of the view that Option B is the most appropriate, for the following reasons:

- (a) The Fraud TF does not believe that the approach in Option A is responsive to comments received on ED-240 and from Board members particularly given the practical challenges associated with specifying that the risks of management override of controls exist at the assertion level.
- (b) Option C provides flexibility in how the risks of management override of controls is assessed by auditors and is a more proportionate response. However, the Fraud TF is of the view that the ability to consistently apply the requirement is of overriding importance.
- (c) Option B generally addresses the issue in a more appropriate way, including:
 - It better reflects the Board’s view of current audit practice (see paragraph 16(a) above).
 - It reflects the intent inherent in the required procedures in paragraphs 47–52 to focus the

⁵ See paragraph 12(b) of the [project proposal](#).

auditor's work effort on the complete population of journal entries and other adjustments, indicators of possible management bias identified in relation to the accounting estimates in the financial statements, and all significant transactions outside the normal course of business or that otherwise appear to be unusual.

- It aligns closely with paragraph 30(a) of ISA 315 (Revised 2019) which requires the auditor to determine whether ROMM at the financial statement level affect the assessment of risks at the assertion level.

Operationalizing the Fraud TF's Recommendation

19. To operationalize the recommendation to classify the risks of management override of controls at the financial statement level, the Fraud TF made the following changes to proposed ISA 240 (Revised) (see **Agenda Item 2-B**) and the conforming and consequential amendments (see **Agenda Item 2-D**):

- The Fraud TF revised paragraph 40 to remove the statement that the risks of management override of controls risk are significant risks and instead requires the auditor to treat such risks as risks of material misstatement due to fraud at the financial statement level. However, the Fraud TF also recognizes the importance of determining whether management override of controls affects the assessment of risks at the assertion level. Accordingly, the Fraud TF recommends specifying that the auditor must determine whether the risks of management override of controls also affect the assessment of risks at the assertion level, which is aligned with paragraph 30(a) of ISA 315 (Revised 2019).
- The Fraud TF moved the paragraph for the ROMMs due to fraud related to management override of controls before the ROMMs due to fraud in revenue recognition, to align with the drafting principle that requirements related to ROMMs at the financial statement level be presented before requirements related to ROMMs at the assertion level.
- The Fraud TF added application material to guide the auditor on when management override of controls may affect risks at the assertion level.
- The Fraud TF recognizes that by classifying the risks of management override of controls as a risk that exists at the financial statement level, there may be circumstances where the auditor does not determine that the risks also exist at the assertion level. In such cases, the risks of management override of controls will not be treated as significant risks. Therefore, the Fraud TF reviewed all requirements that refer to significant risk(s) in the ISAs and determined whether changes should be made to ensure the work effort for responding to risks of management override of controls is not weakened. The following table summarizes the Fraud TF assessment and proposed revisions.

Requirement	Fraud TF's Assessment and Proposed Response
ISA 260 (Revised), <i>Communication with Those Charged with Governance</i>	
15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.	<ul style="list-style-type: none"> • The Fraud TF noted that the auditor's communications with Those Charged with Governance (TCWG) may no longer include the risks of management override of controls and therefore the Fraud TF proposes a

Requirement	Fraud TF's Assessment and Proposed Response
	conforming amendment (see Agenda Item 2-D).
ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>	
<p>26. The auditor shall obtain an understanding of the control activities component, through performing risk assessment procedures, by: (Ref: Para. A147–A157)</p> <p>(a) Identifying controls that address risks of material misstatement at the assertion level in the control activities component as follows:</p> <p>(i) Controls that address a risk that is determined to be a significant risk; (Ref: Para. A158–A159)</p> <p>(ii) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A160–A161)</p> <p>...</p> <p>(d) For each control identified in (a) or (c)(ii): (Ref: Para. A175–A181)</p> <p>(i) Evaluating whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and</p> <p>(ii) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</p>	<ul style="list-style-type: none"> • The Fraud TF proposes revisions to proposed ISA 240 (Revised) to ensure that this requirement will still be applied (see paragraph 36 of Agenda Item 2-B). • Given the changes to paragraph 36, the Fraud TF is of the view that the paragraph A103 is no longer applicable nor relevant. The Fraud TF proposes deletion of the paragraph (see paragraph A103 of Agenda Item 2-B).
<p>32. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A218–A221)</p>	<ul style="list-style-type: none"> • The Fraud TF believes that no amendment is needed for this requirement as it is driving the auditor to make a decision on whether any of the assessed risks of material misstatement are significant risks. The Fraud TF noted that all assessed risks of material misstatement due to fraud at the assertion level shall be treated as significant risks (see

Requirement	Fraud TF's Assessment and Proposed Response
	paragraph 39(b) of Agenda Item 2-B).
<p>Documentation</p> <p>38(d). The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made.</p>	<ul style="list-style-type: none"> The Fraud TF is of the view that proposed ISA 240 (Revised) includes appropriate documentation requirements regarding the risks of management override of controls and that the proposed classification change does not affect the auditor's work effort (see paragraph 67(e) in Agenda Item 2-B).
ISA 330, The Auditor's Response to Assessed Risks	
<p>15. If the auditor intends to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period.</p>	<ul style="list-style-type: none"> The Fraud TF believes that no amendment is needed for this requirement as, in responding to the assessed risks of material misstatement due to fraud related to management override of controls, the auditor is required to perform the audit procedures in accordance with paragraphs 48–52, and determine whether other audit procedures are needed, which the Fraud TF believes is sufficient.
<p>21. If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details. (Ref: Para. A55)</p>	<ul style="list-style-type: none"> The Fraud TF notes that the procedures to respond to the risks of management override of controls are prescribed in proposed ISA 240 (Revised) and therefore concluded that no change is needed.
ISA 505, External Confirmations	
<p>3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:</p> <p>...</p> <ul style="list-style-type: none"> ISA 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk. To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or 	<ul style="list-style-type: none"> The Fraud TF is of the view that no amendments are necessary for this introductory paragraph as it is factual in describing how other ISAs recognize the importance of external confirmations in certain circumstances but does not impose a requirement and therefore does not impact the auditor's work effort related to risks of management override of controls.

Requirement	Fraud TF's Assessment and Proposed Response
<p>reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. ISA 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.</p> <p>...</p>	
ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures	
<p>17. The auditor shall determine whether any of the risks of material misstatement identified and assessed in accordance with paragraph 16 are, in the auditor's judgment, a significant risk.⁶ If the auditor has determined that a significant risk exists, the auditor shall identify controls that address that risk,⁷ and evaluate whether such controls have been designed effectively, and determine whether they have been implemented.⁸ (Ref: Para. A80)</p>	<ul style="list-style-type: none"> This requirement is specific to accounting estimates and therefore the work effort for risks of management override of controls is not weakened. The Fraud TF concluded that no change is needed.
<p>20. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to rely on those controls. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.⁹ (Ref: Para. A90)</p>	<ul style="list-style-type: none"> This requirement is specific to accounting estimates and therefore the work effort for risks of management override of controls is not weakened. The Fraud TF concluded that no change is needed.

⁶ ISA 315 (Revised 2019), paragraph 32

⁷ ISA 315 (Revised 2019), paragraph 26(a)(i)

⁸ ISA 315 (Revised 2019), paragraph 26(d)

⁹ ISA 330, paragraphs 15 and 21

Requirement	Fraud TF's Assessment and Proposed Response
ISA 550, <i>Related Parties</i>	
<p>18. In meeting the ISA 315 (Revised 2019) requirement to identify and assess the risks of material misstatement, the auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks.¹⁰ In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.</p>	<ul style="list-style-type: none"> This requirement is specific to related parties and therefore the work effort for risks of management override of controls is not weakened. The Fraud TF concluded that no change is needed.
ISA 600 (Revised), <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	
<p>Engagement Performance</p> <p>28. In applying ISA 220 (Revised),¹¹ the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account: (Ref: Para. A72–A77)</p> <p>(a) Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA 315 (Revised 2019); and</p> <p>(b) Areas in the audit of the group financial statements that involve significant judgment.</p>	<ul style="list-style-type: none"> The Fraud TF proposed a conforming amendment to make sure that the group engagement partner takes responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work related to risks of management override of controls (see Agenda Item 2-D).
<p>42. For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA 315 (Revised 2019), on which a component auditor is determining the further audit procedures to be performed, the group auditor shall evaluate the</p>	<ul style="list-style-type: none"> In ISA 600 (Revised), this requirement is located in the section on responding to assessed risks of material misstatement. The Fraud TF is of the view that no amendments are necessary for this requirement as proposed ISA 240 (Revised) includes specific audit procedures in responding to

¹⁰ ISA 315 (Revised 2019), paragraph 32

¹¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 29

Requirement	Fraud TF's Assessment and Proposed Response
appropriateness of the design and performance of those further audit procedures.	the assessed risks of material misstatement due to fraud related to management override of controls (see paragraphs 48–52). Also, the auditor is required to determine whether other audit procedures are needed. The Fraud TF is of the view that this is sufficient.
ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>	
Determining Key Audit Matters 9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18) (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised 2019). (Ref: Para. A19–A22) (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that are subject to a high degree of estimation uncertainty. (Ref: Para. A23– A24) (c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)	<ul style="list-style-type: none"> The Fraud TF notes that proposed ISA 240 (Revised) includes a section on the auditor's report and that the section includes a requirement to determine key audit matters (KAM) related to fraud, including taking account the ROMM due to fraud, which would include the risks of management override of controls. Therefore, the Fraud TF concluded that no change is needed (see paragraphs 59–60 in Agenda Item 2-B).

- (e) In addition, the Fraud TF reviewed the application material that refers to significant risk(s). For the paragraphs in the table below, the Fraud TF determined that a conforming and consequential amendment is useful.

Application Material	Fraud TF's Assessment and Proposed Response
International Standard on Quality Management (ISQM) 1, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>	
A135. The firm's responses to address quality risks may include other forms of	<ul style="list-style-type: none"> The Fraud TF proposes a consequential amendment to ensure that appropriate

Application Material	Fraud TF's Assessment and Proposed Response
<p>engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, such as risks of management override of controls, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.</p>	<p>engagement reviews are performed on risks of management override of controls when the auditor did not determine that such risks exist at the assertion level (see Agenda Item 2-D).</p>
<p>ISA 220 (Revised), <i>Quality Management for an Audit of Financial Statements</i></p>	
<p>A99. ISQM 1 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example for:</p> <p>...</p> <ul style="list-style-type: none"> • Significant risks; <p>...</p>	<ul style="list-style-type: none"> • The Fraud TF proposes a consequential amendment to ensure that consultations are performed on risks of management override of controls, even in cases where the auditor did not determine that such risks exist at the assertion level (see Agenda Item 2-D).
<p>ISA 260 (Revised), <i>Communication with Those Charged with Governance</i></p>	
<p>A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they were determined to be significant risks. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.</p>	<ul style="list-style-type: none"> • The Fraud TF proposes a consequential amendment to reflect the proposed revisions to the associated requirement – ISA 260 (Revised) paragraph 15 (see paragraph 19(d) above and Agenda Item 2-D).
<p>A13. Matters communicated may include:</p> <ul style="list-style-type: none"> • How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error. 	<ul style="list-style-type: none"> • The Fraud TF proposes a consequential amendment to reflect the proposed revisions to the associated requirement – ISA 260 (Revised) paragraph 15 (see paragraph 19(d) above and Agenda Item 2-D).

Application Material	Fraud TF's Assessment and Proposed Response
<ul style="list-style-type: none"> How the auditor plans to address areas of higher assessed risks of material misstatement. <p>....</p>	
ISA 315 (Revised 2019), <i>Identifying and Assessing the Risks of Material Misstatement</i>	
<p>A183.If the auditor has identified one or more control deficiencies, ISA 265¹² requires the auditor to determine whether, individually or in combination, the deficiencies constitute a significant deficiency. The auditor uses professional judgment in determining whether a deficiency represents a significant control deficiency.¹³</p> <p>Examples:</p> <p>Circumstances that may indicate a significant control deficiency exists include matters such as:</p> <p>...</p> <ul style="list-style-type: none"> Previously communicated deficiencies that are not corrected by management in a timely manner; Failure by management to respond to significant risks, for example, by not implementing controls over significant risks; and <p>...</p>	<ul style="list-style-type: none"> The Fraud TF is of the view that it is important to highlight the communication of control deficiencies associated with management override of controls. Therefore, the Fraud TF proposes a consequential amendment to the examples listed and included management override of controls specifically (see Agenda Item 2-D).
<p>A195. Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, account balance or</p>	<ul style="list-style-type: none"> The Fraud TF reflected on the inclusion of the risk of management override of controls as an example of a financial statement level risk (see second sentence). As the Fraud TF proposes that risks of management override of controls exist at the financial statement level in all audits, the Fraud TF is of the view that the inclusion of management override of

¹² ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 8

¹³ ISA 265, paragraphs A6–A7 set out indicators of significant deficiencies, and matters to be considered in determining whether a deficiency, or a combination of deficiencies, in internal control constitute a significant deficiency.

Application Material	Fraud TF's Assessment and Proposed Response
<p>disclosure level (e.g. risk of management override of controls). Rather, they represent circumstances that may pervasively increase the risks of material misstatement at the assertion level. The auditor's evaluation of whether risks identified relate pervasively to the financial statements supports the auditor's assessment of the risks of material misstatement at the financial statement level. In other cases, a number of assertions may also be identified as susceptible to the risk, and may therefore affect the auditor's risk identification and assessment of risks of material misstatement at the assertion level.</p>	<p>controls as an example may create confusion in practice (i.e. described as an 'example' that may call into question whether the risks of management override of controls is a financial statement level risk in all audits). The Fraud TF proposes to remove the example to avoid any unintended consequences (see Agenda Item 2-D).</p>
<p>ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i></p>	
<p>A19. ISA 260 (Revised) requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.¹⁴ Paragraph A13 of ISA 260 (Revised) explains that the auditor may also communicate with those charged with governance about how the auditor plans to address areas of higher assessed risks of material misstatement.</p>	<ul style="list-style-type: none"> The Fraud TF proposes a consequential amendment to reflect the proposed revisions to the associated requirement – ISA 260 (Revised), paragraph 15 (see paragraph 19(d) above and Agenda Item 2-D).
<p>[This application material reflects the proposed conforming and consequential amendments previously proposed to this paragraph]</p> <p>A21. However, this may not be the case for all significant risks. For example, ISA 240 (Revised) presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.¹⁵ In addition, ISA 240</p>	<ul style="list-style-type: none"> The Fraud TF proposes a conforming amendment to remove the reference to "significant risk" in the application material to align with the proposed changes to management override of controls in proposed ISA 240 (Revised) (see Agenda Item 2-D).

¹⁴ ISA 260 (Revised), paragraph 15

¹⁵ ISA 240 (Revised), ~~The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements~~, paragraphs 27–28, 39 and 41

Application Material	Fraud TF's Assessment and Proposed Response
<p>(Revised) indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.¹⁶ <u>The auditor may determine these matters to be key audit matters related to fraud because risks of material misstatement due to fraud are often matters that both require significant auditor attention</u> and are of most significance in the audit. <u>However, this may not be the case for all these matters. The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention. Depending on their nature, these risks may not require significant auditor attention,</u> and, therefore, these risks would not be considered in the auditor's determination of key audit matters in accordance with paragraph 10.</p>	
<p>ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i></p>	
<p>A9. ISA 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.¹⁷ Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in ISA 701. However, law or regulation may require the auditor to</p>	<ul style="list-style-type: none"> The Fraud TF proposes a consequential amendment to reflect the proposed revisions to the associated requirement – ISA 260 (Revised), paragraph 15 (see paragraph 19(d) above and Agenda Item 2-D).

¹⁶ ISA 240 (Revised), paragraph 3240

¹⁷ ISA 260 (Revised), paragraph 15

Application Material	Fraud TF's Assessment and Proposed Response
communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.	

Section II - Linkage Between Proposed ISA 240 (Revised) with ISA 250 (Revised)

20. Paragraph 14 of proposed ISA 240 (Revised) presented at the December 2024 IAASB meeting states that because fraud constitutes an instance of non-compliance with laws and regulations, the auditor also performs audit procedures in accordance with ISA 250 (Revised). The Board and respondents to ED-240 asked the Fraud TF to clarify how proposed ISA 240 (Revised) is intended to interact with ISA 250 (Revised) when fraud or suspected fraud is identified during the audit, including whether the auditor is required to duplicate potentially similar procedures that apply under the two standards in all cases.
21. The Fraud TF reaffirms that the auditor applies the applicable requirements in both standards. However, what are considered by the auditor to be the applicable requirements will vary depending on the facts and circumstances. For example, not all the fraud or suspected fraud requirements in proposed ISA 240 (Revised) will be applicable in all cases because, for example, the auditor might determine that a suspected fraud is clearly inconsequential after obtaining an understanding of the matter in accordance with paragraph 54. Similarly, the requirements that are applicable in ISA 250 (Revised) will also vary based on the unique facts and circumstances of the suspected fraud (which paragraph 14 states is treated by the auditor as suspected non-compliance with a law or regulation).
22. However, the Fraud TF believes that further clarity can be provided and proposes the following revisions to paragraph 14 and the related application material:
 - (a) A revision to paragraph 14 to clarify the fact that not all the requirements in ISA 250 (Revised) apply in all instances. Specifically, the reference to “performs audit procedures in accordance with ISA 250 (Revised)” was replaced with “has responsibilities in accordance with ISA 250 (Revised)” to remove the suggestion that all the requirements in ISA 250 (Revised) apply.
 - (b) The introduction of new application material in paragraph A15A, including an example, to clarify that complying with the requirements of proposed ISA 240 (Revised) may also fulfill certain applicable requirements in ISA 250 (Revised).

Matter for IAASB Consideration:

1. The Board is asked for its views on proposed ISA 240 (Revised), as presented in **Agenda Item 2-B**, including:
 - a) Does the Board agree with the Fraud TF's views and recommendations outlined in paragraph 18 of **Section I** regarding how auditors should assess risks of management override of controls?
 - b) Does the Board agree with the Fraud TF's views and recommendations outlined in paragraph 22 of **Section II** on how to clarify the interaction between proposed ISA 240 (Revised) and

ISA 250 (Revised) when fraud or suspected fraud is identified in an audit?

Part B – Conforming and Consequential Amendments

23. **Agenda Item 2-D** sets out the proposed conforming and consequential amendments to other IAASB standards as a result of the revision of ISA 240. In addition to the proposed conforming and consequential amendments reflected in **Agenda Item 2-D** since the December 2024 IAASB meeting which are explained in **Agenda Item 2-A** and in paragraph 19(e) above, this section describes the significant conforming and consequential amendments that are being proposed to ISA 600 (Revised) which deal with how to apply the fraud and suspected fraud requirements in a group audit.

Fraud and Suspected Fraud Requirements in a Group Audit

24. As described in the issues paper which was presented to the Board at the December 2024 meeting (see [Agenda Item 10](#)), the Fraud TF agreed to consider whether any incremental conforming or consequential amendments are needed in ISA 600 (Revised) to support consistency in how auditors navigate the new fraud or suspected fraud requirements in the context of a group audit.
25. In considering the matter, the Fraud TF agreed to propose conforming or consequential amendments to ISA 600 (Revised) that it considers to be critical at keeping the two standards interoperable (thereby supporting coherence across the ISAs).
26. Further to that objective, the Fraud TF is proposing to introduce a requirement in paragraph 44A of ISA 600 (Revised) (see **Agenda Item 2-D**) which clarifies that the group auditor shall take responsibility for obtaining an understanding of any fraud or suspected fraud that is identified by the component auditor in accordance with paragraph 54 of the proposed ISA 240 (Revised). Paragraph 11 of ISA 600 (Revised) clarifies that taking responsibility permits the group auditor to assign to the component auditor the design and performance of the procedures outlined in paragraph 54 of the proposed standard. A conforming amendment to ISA 600 was not deemed necessary relating to paragraph 55 of proposed ISA 240 (Revised) because it is clear the requirement is to be performed by the group engagement partner.
27. The Fraud TF also proposes a consequential amendment to paragraph 45(h) of ISA 600 to require the component auditor to communicate all identified instances of fraud or suspected fraud to the group auditor. The proposed amendment is meant to address the fact that paragraph 44A requires the group auditor to take responsibility for obtaining an understanding of any fraud or suspected fraud and the group auditor should accordingly be made aware of all instances of fraud or suspected fraud that are identified by the component auditor.

Matter for IAASB Consideration:

2. The Board is asked for its views on the proposed conforming and consequential amendments arising from proposed ISA 240 (Revised), as presented in **Agenda Item 2-D** (which are further explained in **Agenda Item 2-A**), including:
- Does the Board agree with the Fraud TF's proposed consequential amendments to ISA 600 (Revised) described in paragraphs 26–27 above which relate to applying the fraud and suspected fraud requirements in a group audit?

Part C – Due Process Considerations

Significant Matters Raised by Respondents

28. In the Fraud TF's view, the significant matters that were identified as a result of its deliberations since the beginning of this project, including deliberations on the significant matters raised by respondents to ED-240, and its conclusions and recommendations thereon, have been carefully considered. The Fraud TF's analysis of the significant matters and proposals have been reflected in the public agenda materials presented to the IAASB at its meetings. In the Fraud TF's view, there are no significant matters discussed during the course of this project that have not been brought to the IAASB's attention.

Consideration of the Need for Re-Exposure

Overview

29. If the Board votes to approve proposed ISA 240 (Revised), then a separate affirmative vote of the Board is required on whether the standard needs to be re-exposed. Based on the proposed revisions presented in **Agenda Item 2-B**, and prior to any changes proposed at the March 2025 IAASB meeting, the Fraud TF is of the view that proposed ISA 240 (Revised) does not warrant re-exposure. All of the members of the Fraud TF are in agreement with this conclusion.

Due Process Requirements for Re-Exposure

30. The IAASB's due process sets out relevant matters for re-exposure.¹⁸ The principal consideration therein is "whether there has been substantial change to the exposed document such that re-exposure is necessary." The related working procedures, which support the due process, include three examples of situations that may constitute potential grounds for a decision to re-expose:
- (a) Substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion;
 - (b) Substantial change arising from matters not previously deliberated by the IAASB; or
 - (c) Substantial change to the substance of a proposed international pronouncement.
31. The Fraud TF notes that there will almost always be changes to standards between an ED and the final standard to appropriately respond to comments received on exposure—this is true for proposed ISA 240 (Revised). In forming its view on re-exposure, the Fraud TF considered the potential grounds for re-exposure as set out above and focused on these in determining its views for the purpose of this paper.

Considerations Relevant to the Development of the Fraud TF's View on Re-Exposure

Key Elements Addressed in ED-240

32. The project proposal sets out the project objectives that support the public interest and related significant elements addressed in developing the proposed revisions in ED-240, including:
- (a) Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements;
 - (b) Promote consistent behavior and facilitate effective responses to identified risks of material

¹⁸ See the IAASB's [Due Process and Working Procedures](#), paragraphs 23 and A40–A42.

misstatement due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary;

- (c) Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures; and
 - (d) Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with TCWG and the reporting requirements in ISA 240 and other relevant ISAs.
33. Paragraph 26 of the [Project Proposal](#) highlighted the qualitative standard-setting characteristics that were at the forefront, or of most relevance, in developing the proposed revisions in ED-240.
34. The [Public Interest Issues Table](#) that accompanied ED-240 mapped the key aspects of proposed ISA 240 (Revised) to the standard-setting actions and objectives in the project proposal that support the public interest, including the relevant qualitative standard-setting characteristics of the PIF in evaluating the public interest responsiveness of the proposals. An updated version of the Public Interest Issues Table is presented in **Appendix 3**.

Responses to ED-240 and Consideration of the Nature and Extent of Changes since ED-240

35. The overall tone of the comment letters to ED-240 was supportive. However, there were some areas respondents had suggestions on how to further enhance, strengthen or clarify proposed ISA 240 (Revised). The Fraud TF carefully considered these matters in developing proposed ISA 240 (Revised) post ED-240. The significant matters raised by respondents and how they were addressed are summarized in the table below:

Significant Matters Raised by Respondents to ED-240	IAASB/Fraud TF Response
Responsibilities of the Auditor	
<ul style="list-style-type: none"> Further clarify the auditor's responsibilities relating to third-party fraud. Introduce additional material on inherent limitations of an audit to further emphasize that an audit includes an unavoidable risk that some material misstatements due to fraud in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. 	<ul style="list-style-type: none"> Enhanced the application material relating to the auditor's responsibilities to consider third-party fraud in the audit by providing additional guidance and examples about the related work effort. Decided against introducing additional material relating to inherent limitations to avoid undermining clarity around the auditor's responsibilities relating to fraud in an audit of financial statements.
Non-Compliance with Law and Regulations	
<ul style="list-style-type: none"> Clarify the interaction and linkages with ISA 250 (Revised). 	<ul style="list-style-type: none"> Streamlined paragraph 14 in the key concepts section of proposed ISA 240 (Revised) which

Significant Matters Raised by Respondents to ED-240	IAASB/Fraud TF Response
	deals with the relationship between fraud affecting the entity and the entity's non-compliance with laws and regulations and added new application material (including examples) to further clarify how proposed ISA 240 (Revised) is intended to interact with ISA 250 (Revised).
Professional Skepticism	
<ul style="list-style-type: none"> Mixed views about how ED-240 dealt with authenticity of records and documents including a recommendation by regulators and audit oversight authorities for a consequential amendment to paragraph A24 of ISA 200,¹⁹ to remove the sentence: <i>"The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary."</i> 	<ul style="list-style-type: none"> Concluded that the revisions in proposed ISA 240 (Revised) to the conditional requirement (and related application material) that applies when conditions are identified that cause doubts about the authenticity of records or documents are responsive to the project's objectives. Concluded that the Audit Evidence and Risk Response project team is better positioned to determine whether a consequential amendment is required to paragraph A24 of ISA 200.
Risk Assessment Procedures and Related Activities	
<ul style="list-style-type: none"> Strengthen the fraud lens on certain requirements and delete duplication with foundational requirements. Include a requirement to obtain an understanding of the whistleblower program given the importance of such program in the identification of fraud. Include guidance or examples that clarify the relationship between fraud risks factors, inherent risks and control risks. 	<ul style="list-style-type: none"> Retained the structure and generally the requirements in this section. Clarified that the requirements are intended to be applied in conjunction with other relevant ISAs in the introductory paragraphs. Streamlined requirements to remove duplication with foundational requirements and to focus on the incremental fraud lens. Added a conditional requirement for the auditor to obtain an understanding of the entity's whistleblower program, or other program to report fraud, when such program exists at the entity.

¹⁹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Significant Matters Raised by Respondents to ED-240	IAASB/Fraud TF Response
<ul style="list-style-type: none"> • Further clarify how fraud risk factors help identify ROMMs due to fraud. • Clarify whether the presumed risk of management override of controls resides at the financial statement or assertion level. 	<ul style="list-style-type: none"> • Revised the application material to further explain the relationship between fraud risk factors, inherent risks and control risks. • Relocated the requirement to evaluate fraud risk factors to the end of the risk assessment procedures section and added new application material to clarify the link between fraud risk factors and ROMMs due to fraud. • Concluded that risks of management override of controls exist at the financial statement level but that the auditor also needs to determine whether such risks affect the assessment of risks at the assertion level.
Fraud or Suspected Fraud	
<ul style="list-style-type: none"> • Introduce additional scalability and proportionality to the fraud and suspected fraud requirements. 	<ul style="list-style-type: none"> • Introduced a threshold in the fraud or suspected fraud requirements for the auditor to exclude from further consideration fraud or suspected fraud that is determined to be clearly inconsequential. • Added application material that guides the auditor to leverage the understanding of the entity's whistleblower program when determining whether fraud or suspected fraud is clearly inconsequential. • Introduced a requirement in ISA 600 (Revised), to help auditors navigate the fraud or suspected fraud requirements in a group audit.
Auditor's Report	
<ul style="list-style-type: none"> • Mixed views on how to enhance transparency about matters related to fraud in the auditor's report, especially related to the: <ul style="list-style-type: none"> ○ Placement of requirements: whether the requirements should be in ISA 240 (Revised) or ISA 701. ○ Placement of the KAMs related to fraud in the auditor's report: whether the 	<ul style="list-style-type: none"> • Retained the requirements for the auditor to communicate KAMs related to fraud in ISA 240 (Revised). • Retained the placement of KAMs related to fraud in the KAM section of the auditor's report. • Confirmed the intention to encourage communication of KAMs related to fraud and therefore kept the application material driving the communication of KAMs related to fraud.

Significant Matters Raised by Respondents to ED-240	IAASB/Fraud TF Response
<p>KAMs related to fraud should be in the KAM section or a specific fraud section.</p> <ul style="list-style-type: none"> ○ Statement when there are no KAMs related to fraud to communicate and the application material driving auditors to communicate KAMs related to fraud. ○ References to fraud in the KAMs section heading and sub-headings. 	<ul style="list-style-type: none"> • Removed the requirement for the auditor to include a disclosure which specifies that there are no KAMs related to fraud to communicate. • Removed the reference to fraud in the KAMs section heading.
Other Matters	
<ul style="list-style-type: none"> • Relocate the requirement on unpredictability in the selection of audit procedures into the overall responses section. • Clarify how the requirement to obtain audit evidence on the completeness of journal entries should be addressed in the context of a group audit. • Mixed views on the need to include a stand-back requirement in proposed ISA 240 (Revised). 	<ul style="list-style-type: none"> • Reaffirmed that examples of unpredictability in the selection of audit procedures are sufficient, and that the location of the requirement is appropriate. • Reaffirmed that the auditor must test the completeness of the population for the reporting period and removed the word “all” from paragraph 50(b) to address confusion that in a group audit the requirement includes all components regardless of whether all components are subject to testing. • Reaffirmed decision not to introduce a separate stand-back requirement.

Fraud TF's Views on Whether the Changes Necessitate Re-Exposure

36. The Fraud TF considered the major changes in the relevant requirements from ED-240, as shown in the table above, and believes that re-exposure is not necessary. These changes clarify, but do not substantially alter, the key elements addressed in ED-240, nor have they resulted in a departure from the objectives in paragraph 12 of the project proposal to revise ISA 240 (Revised).
37. In addition, the Fraud TF notes that:
- (a) There are no substantial changes to the key concepts of the project. All the key elements presented in ED-240 have been retained. Some of these elements have been modified, clarified or strengthened in response to comments received on exposure and related outreach and coordination activities.
 - (b) No new key concepts have been introduced.

- (c) The changes to the text post-exposure are in response to feedback from respondents to ED-240 and do not fundamentally or substantively change the proposals in ED-240.
38. Further, the Fraud TF is of the view that re-exposing proposed ISA 240 (Revised) will not result in new information or concerns that have not already been presented in comment letters or in subsequent outreach activities.

Effective Date

39. In its December 2024 meeting, the IAASB agreed to align the effective date of proposed ISA 240 (Revised) with the effective dates of the IAASB's Going Concern and Listed Entity and PIE Track 2 projects. The fraud standard will be effective for audits of financial statements for periods beginning on or after December 15, 2026. The IAASB believes this timeframe is sufficient to allow jurisdictions for translation of the standard, for national adoption processes to occur, and for practitioners to update methodologies, tools, and training materials.

Part D – Next Steps

Basis for Conclusions

40. Subject to the Board's approval of the final pronouncement of ISA 240 (Revised) in March 2025, Staff, in coordination with the Fraud TF, will prepare a Basis for Conclusions²⁰ document in accordance with due process. The Basis for Conclusions document may also be used to provide further explanation of some matters relevant to understanding the meaning and intent of certain provisions that will aid implementation.

Implementation Support

41. In addition to the publication of the final standard and the Basis for Conclusions document, it is anticipated that a general fact sheet will be developed to facilitate stakeholders' understanding of the key changes introduced in the revised standard.

²⁰ The Basis for Conclusions document will be circulated to the Board in due course for fatal flaw comments after the March 2025 IAASB meeting.

Fraud TF Members and Supporting IAASB Staff and Activities

Fraud TF Members

1. The Fraud TF consists of the following members:

- Julie Corden (Chair)
- Greg Schollum
- Josephine Jackson
- Sami Alshorafa
- Wendy Stevens

IAASB Staff

2. IAASB Staff supporting the project are:

- Jasper van den Hout, Director
- Angelo Giardina, Principal
- Ida Diu, Senior Manager
- Isabelle Raiche, Senior Manager

3. Information about the project can be found [here](#).

Fraud TF Activities

4. Since December 2024, the Fraud TF held one physical meeting and one virtual meeting.

Outreach

5. Between the posting of the papers for the December 2024 IAASB meeting and the posting of the papers for the March 2025 IAASB meeting, IAASB staff and the Fraud TF Chair met with:

- The International Forum of Independent Audit Regulators' Standards and Coordination Working Group (December 3, 2024).
- The International Organization of Securities Commission's Committee on Issuer Accounting, Audit and Disclosure (Committee 1) (December 4, 2024).

Appendix 2

Approach for the Walkthrough of Agenda Items 2-B

Section in Agenda Item 2-B	Paragraphs in Agenda Item 2-B
Scope of this ISA Responsibilities of the Auditor, Management and Those Charged with Governance Key Concepts in this ISA Relationship with Other ISAs	1–15, A1–A17
Effective Date	16
Objectives Definitions	17–18, A18–A25
Professional Skepticism	19–22, A26–A36
Engagement Resources Engagement Performance Ongoing Nature of Communications with Management and Those Charged with Governance	23–25, A37–A47
Risk Assessment Procedures and Related Activities	26–30, A48–A59
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control	31–37, A60–A108
Evaluation of Fraud Risk Factors Identifying and Assessing the Risks of Material Misstatement due to Fraud	38–41, A109–A123
Responses to the Assessed Risks of Material Misstatement Due to Fraud	42–53, A124–A153
Fraud or Suspected Fraud	54–57, A156–A170

Section in Agenda Item 2-B	Paragraphs in Agenda Item 2-B
<p>Auditor Unable to Continue the Audit Engagement</p> <p>Auditor's Report</p> <p>Written Representations</p>	<p>58–62, A171–A192</p>
<p>Communications with Management and Those Charged with Governance</p> <p>Reporting to an Appropriate Authority Outside the Entity</p> <p>Documentation</p>	<p>63–67, A193–A204</p> <p>Appendix 1–5</p>

Appendix 3

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

1. This appendix maps 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. The qualitative characteristics considered are as follows:
 - (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).
 - (g) *Coherence* (with the overall body of ISAs, for example, by building appropriately on the relevant requirements of foundational standards (e.g., ISA 315 (Revised 2019) and ISA 330)).

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
A. Project Objective: Clarify the Role and Responsibilities of the Auditor for Fraud in an Audit of Financial Statements			
A.1: Introductory Paragraphs in ISA 240 – Emphasis on the Auditor’s Responsibilities Enhance and clarify the introductory paragraphs in ISA 240 to emphasize the auditor’s responsibilities regarding fraud, including: <ul style="list-style-type: none">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.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 paragraphs.	Paras. 1–11, A1–A12	<ul style="list-style-type: none">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.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 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.	<ul style="list-style-type: none">Clarity and concisenessComprehensivenessEnforceability

²¹ 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 ISA 240 (Revised).

²² 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) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> Considering whether the auditor's responsibilities should be placed prior to the description of inherent limitations of an audit. 			
<p>A.2: Application Material – Definition of Fraud</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)).</p>	Paras. A18–A22	<ul style="list-style-type: none"> Added application material that: <ul style="list-style-type: none"> Clarifies the relationship of fraud with corruption, bribery and money laundering. 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 in accordance with ISA 250 (Revised). 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i> <i>Coherence</i>
<p>A.3: Requirements and Application Material – Specialized Skills</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"> Consider a new requirement and 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: <ul style="list-style-type: none"> When performing risk 	Paras. 23–24, A37–A42	<ul style="list-style-type: none"> Added requirements that expand on relevant requirements in ISA 220 (Revised), for the engagement partner to: <ul style="list-style-type: none"> 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 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. Determine that the nature, timing and extent of direction, supervision and review by considering 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Clarity and conciseness</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard- Setting Characteristics Considered ²²
	Paragraph	Description	
<p>identification and assessment. In doing so, consider how this links to the revised requirements in ISA 220 (Revised) for adequate resources for the engagement.</p> <ul style="list-style-type: none"> ○ When there is identified or suspected fraud. • 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. • 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). • Consider changes made by others in different jurisdictions relating to the use of specialized skills. 		<p>fraud-related matters identified during the course of the audit engagement.</p> <ul style="list-style-type: none"> • Added application material that: <ul style="list-style-type: none"> ○ 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. ○ 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. ○ Describes forensic skills and explains how forensic skills in the context of an audit of financial statements may be used, including examples of forensic skills. 	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
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.4: Requirements and Application Material – Identifying and Assessing Risks of Material Misstatement 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: <ul style="list-style-type: none">• Developing explicit fraud considerations in risk assessment procedures.• Clarifying that risk assessment procedures in ISA 240 are not separate from those in ISA 315 (Revised 2019).• Enhancing the requirements to consider information obtained from acceptance and continuance when obtaining an understanding of the entity and its environment, etc.• 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	Paras. 26–41, A23–A25, A48–A123, Appendix 1	<ul style="list-style-type: none">• Restructured ISA 240 (Revised) to follow a similar structure as ISA 315 (Revised 2019), which helps demonstrate the integrated relationship between the two standards.• 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.• To align with ISA 540 (Revised) 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 ISA 240 (Revised).• 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">○ Entity and its environment, and the applicable financial reporting framework; and	<ul style="list-style-type: none">• Scalability• Relevance• Comprehensiveness• Implementability• Coherence

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<p>accordance with ISA 315 (Revised 2019), with an emphasis on, for example:</p> <ul style="list-style-type: none"> ○ The entity's corporate culture. ○ Entity's key performance indicators. ○ Employee performance measures and incentive compensation policies. ○ The entity's risk assessment process. ○ Specific control activities to prevent and detect fraud. ○ Other information, e.g., matters the auditor is aware of based on the performance of procedures in accordance with ISA 720 (Revised)²³ or the auditor's knowledge obtained throughout the audit. <ul style="list-style-type: none"> • 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. 		<ul style="list-style-type: none"> ○ 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. ○ Entity's whistleblower program, or other program to report fraud, when such program exists at the entity. • Enhanced requirements and application material 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>. • Added requirements and application material to clarify that the risks of management override of control reside at the financial statement level and that the auditor must determine whether such risks affect the assessment of risks at the assertion level. • Enhanced or added application material that: <ul style="list-style-type: none"> ○ Explains more precisely what the expanded requirements relating to risk identification and assessment in ISA 240 (Revised) are intended 	

²³ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> 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. Considering examples in ISA 240 to illustrate the scalability of the requirements, for example by providing examples that are more relevant to less complex entities. 		<p>to cover, as well as in some cases “why” a procedure or action is needed.</p> <ul style="list-style-type: none"> Provides examples demonstrating how the requirements can be applied for smaller or less complex entities. Further explains the relationship between fraud risk factors, inherent risks and control risks. <ul style="list-style-type: none"> Updated the fraud risk factors in Appendix 1 to ISA 240 (Revised). 	
<p>B.5: Requirements and Application Material – Engagement Team Discussion</p> <p>Enhance requirements and application material in ISA 240 to make the engagement team discussion on fraud considerations more robust, including:</p> <ul style="list-style-type: none"> Enhancing requirements to require specific topics to be included during the engagement team discussion. Enhancing application material in ISA 240 to explain when it may be beneficial to hold further engagement team discussion(s). Enhancing application material in ISA 240 for when it may be beneficial for specialists (including internal or external 	<p>Paras. 29, A42, A52–A58</p>	<ul style="list-style-type: none"> 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, including: <ul style="list-style-type: none"> An exchange of ideas about the entity’s culture, management’s commitment to integrity and ethical values, the related oversight by TCWG, fraud risk factors, which types of revenue, revenue transactions or relevant assertions may give rise to the risks of material misstatement due to fraud in revenue recognition and how management may be able to override controls; and Consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan for the audit engagement. Added application material, with examples, explaining 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Comprehensiveness</i> <i>Implementability</i> <i>Coherence</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
fraud specialists) to attend engagement team discussion(s).		<p>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.</p> <ul style="list-style-type: none"> Added application material explaining that the involvement and contributions of individuals with specialized skills or knowledge may elevate the quality of the engagement team discussion. 	
<p>B.7: Requirements and Application Material – Responses to the Assessed Risks of Material Misstatement</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"> 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. Enhancing application material in ISA 	<p>Paras.42–53, A124–A153</p>	<ul style="list-style-type: none"> Added a requirement for the auditor to design and 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. The requirement is consistent with similar requirements in ISA 315 (Revised 2019) and ISA 540 (Revised). 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 ROMM due to fraud. 	<ul style="list-style-type: none"> <i>Relevance</i> <i>Comprehensiveness</i> <i>Implementability</i> <i>Enforceability</i> <i>Coherence</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
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).			
B.8: Requirements and Application Material – Written Representations from Management Consider enhancing and clarifying the requirements and application material for written representations from management.	Paras.62, A191–A192	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i>
B.9: Application Material – Technology Considerations Enhance application material in ISA 240 to reflect and describe the use of technology to: <ul style="list-style-type: none"> Enable fraudulent activity (including cybercrime). Perform fraud-related procedures by auditors. 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	Paras. A5, A9, A35, A39–A40, A55, A61, A65, A100, A102, A126, A127, A145, A149, A153, Appendix 2 and Appendix 4	Added application material to reflect and describe the use of technology, including: <ul style="list-style-type: none"> Guidance on how technology used by entities in their information systems, particularly where there are control deficiencies to address risks arising from the use of IT, may enable fraudulent activity. 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. Guidance highlighting that expertise in Information Technology systems may be considered when determining whether the engagement team has the 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Clarity and conciseness</i> <i>Implementability</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard- Setting Characteristics Considered ²²
	Paragraph	Description	
expert(s) as needed.		<p>appropriate competence and capabilities.</p> <ul style="list-style-type: none"> • 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. • Guidance and examples of automated controls that prevent or detect fraud within the entity. • Guidance on the auditor's consideration of the implication of changes to the entity's IT environment when performing risk assessment procedures. • 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. • Guidance on the use of automated tools and techniques by the auditor to test journal entries and other adjustments. • Guidance and examples on the use of automated tools and techniques by the engagement team to review accounting estimates for management bias. 	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<p>B.11: Introductory Paragraphs and Application Material in ISA 240 – Relationship Between ISA 240 and ISA 250 (Revised), and Other ISAs</p> <p>Enhance the introductory paragraphs and consider application material in ISA 240 to clarify the relationship between ISA 240 and ISA 250 (Revised), including:</p> <ul style="list-style-type: none"> 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)). Enhance, within the standards, the linkages between ISA 240 and the other ISAs with cross-referencing as appropriate. 	<p>Paras. 14, A15–A16, Appendix 5</p>	<ul style="list-style-type: none"> Added an introductory paragraph explaining the relationship of ISA 240 (Revised) with the other ISAs, including ISA 250 (Revised). This paragraph also explains that ISA 240 (Revised) is intended to be applied in conjunction with other relevant ISAs. Clarified that fraud constitutes an instance of non-compliance with laws and regulations, and as such, the identification of fraud or suspected fraud gives rise to additional responsibilities for the auditor in accordance with ISA 250 (Revised). Added application material to further clarify how ISA 240 (Revised) interacts with ISA 250 (Revised). 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i> <i>Coherence</i>
<p>B.14: Requirements and Application Material – Journal Entries</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"> Considering enhancing requirements in ISA 240 to: <ul style="list-style-type: none"> Clarify that the auditor's risk 	<p>Paras. 35–36, 48–49, A98–A106, A134–A145, Appendix 4</p>	<ul style="list-style-type: none"> Added requirements and related application material, for the auditor to obtain an understanding of: <ul style="list-style-type: none"> How journal entries and other adjustments are initiated, processed, recorded, and corrected, as necessary. Controls over journal entries and other adjustments, designed to prevent or detect fraud. <p>These requirements build on the relevant requirements</p>	<ul style="list-style-type: none"> <i>Relevance</i> <i>Comprehensiveness</i> <i>Implementability</i> <i>Enforceability</i> <i>Coherence</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<p>assessment procedures 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"> ○ Take account of the impact of technology when testing journal entries. ○ Address the extent of testing of journal entries ○ to respond to identified risks. • Enhancing application material to: <ul style="list-style-type: none"> ○ 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. ○ Consider the impact of any proposed changes being made to ISA 500²⁴ (e.g., obtaining audit evidence about the completeness of the information 		<p>in ISA 315 (Revised 2019).</p> <ul style="list-style-type: none"> • Added a requirement and related application material, for the auditor to obtain audit evidence about the completeness of the population of journal entries and other adjustments made in the preparation of the financial statements throughout the period. • 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." • Added application material that: <ul style="list-style-type: none"> ○ Clarifies why the testing of journal entries and other adjustments is performed. ○ 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"> ▪ The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control. ▪ Drawing on the experience and insight of the engagement partner or other key members of the engagement team. ○ Explains how the use of automated tools and 	

²⁴ ISA 500, *Audit Evidence*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
used to test journal entries).		<p>techniques may be used by the auditor to test journal entries and other adjustments.</p> <ul style="list-style-type: none"> Added an appendix with additional considerations that may be used by the auditor when selecting journal entries and other adjustments for testing. 	
<p>B.15: Requirements and Application Material – Presumption of Fraud Risk in Revenue Recognition</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"> 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. Enhancing the application material in ISA 240 to: <ul style="list-style-type: none"> Highlight other account balances that may be particularly susceptible to material misstatement due to fraud (such as goodwill). 	<p>Paras. 41, A113, A117– A123</p>	<ul style="list-style-type: none"> 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. 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. <p>Enhanced or added application material that:</p> <ul style="list-style-type: none"> Highlights relevant assertions and other related classes of transactions, account balances and disclosures that may be susceptible to risks of material misstatement due to fraud. Provides examples of circumstances where there may be greater risks of material misstatement due to fraud in revenue recognition. Clarifies that the significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Clarity and conciseness</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> ○ Clarify when it is inappropriate to rebut the presumption of risks 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). ○ Describe public sector considerations. 		<p>material misstatement due to fraud in revenue recognition.</p> <ul style="list-style-type: none"> • Clarifies the limited circumstances when it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. • Clarifying that in the public sector entities there may be fraud risks related to expenditures instead of revenue recognition. 	
<p>B.16: Application Material – Analytical Procedures</p> <p>Consider enhancing and clarifying the application material in ISA 240 to emphasize the link to ISA 315 (Revised 2019) and ISA 520²⁵ 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. 30, 53, A59, A152–A153</p>	<ul style="list-style-type: none"> • 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.” • Enhanced or added application material that: <ul style="list-style-type: none"> ○ Explains that the auditor may identify fluctuations or relationships at the planning stage 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. ○ Links to the guidance in ISA 520 explaining that analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual 	<ul style="list-style-type: none"> • <i>Clarity and conciseness</i>

²⁵ ISA 520, *Analytical Procedures*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
		components or elements of the financial statements.	
<p>B.17: Requirements and Application Material – Fraud Is Identified or Suspected</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"> Developing new requirements, relocating existing requirements, or elevating existing application material to requirements. Enhancing application material as needed. 	<p>Paras. 54–57, A7–A11, A27, A154–A170</p>	<ul style="list-style-type: none"> Added a separate section in ISA 240 (Revised) for audit procedures when fraud is identified or suspected. Added requirements, and related application material, that: <ul style="list-style-type: none"> Clarifies that the auditor is required to obtain an understanding on all instances of fraud or suspected fraud in order to determine the effect on the audit engagement. Clarifies the engagement partner's responsibilities relating to fraud or suspected fraud that is not clearly inconsequential, including requiring the engagement partner to determine whether: <ul style="list-style-type: none"> Additional risk assessment procedures are needed; Further audit procedures are needed; and There are additional responsibilities under law, regulation or relevant ethical requirements. Clarifies the auditor's responsibilities when the auditor identifies a misstatement due to fraud, including: <ul style="list-style-type: none"> Determining whether the identified misstatement is material; 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Comprehensiveness</i> <i>Clarity and conciseness</i> <i>Implementability</i> <i>Enforceability</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
		<ul style="list-style-type: none"> ▪ Determining whether control deficiencies exist; ▪ Determining the implications of the misstatement in relation to other aspects of the audit; and ▪ Reconsider the reliability of management's representations and audit evidence previously obtained. ○ Clarifies the auditor's responsibilities when the auditor determines that the financial statements are materially misstated due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the financial statements are materially misstated as a result of fraud. • Introduced a threshold in the fraud or suspected fraud requirements for the auditor to exclude from further consideration fraud or suspected fraud that is determined to be clearly inconsequential. 	
B.18: Application Material – Unpredictability of Audit Procedures 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 be scalable.	Paras. 43, A124–A125	<ul style="list-style-type: none"> • Relocated the requirement relating to unpredictability in the selection of audit procedures outside of the overall response section to ensure that an element of unpredictability is incorporated so that it applies to assessed risks of material misstatement due to fraud at the assertion level and financial statement level. • Enhanced the application material by adding examples of unpredictable audit procedures, including 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Clarity and conciseness</i> • <i>Implementability</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
		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.	
B.19: Introductory Paragraphs and Application Material in ISA 240 – Non-Material Fraud 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).	Para. A11	<ul style="list-style-type: none"> Enhanced the application material by clarifying that identified misstatements due to fraud that are not quantitatively material may be qualitatively material depending on who instigated or perpetrated the fraud and why the fraud was perpetrated. Clarified that the auditor is required to obtain an understanding on all instances of fraud or suspected fraud in order to determine the effect on the audit engagement. 	<ul style="list-style-type: none"> <i>Comprehensiveness</i> <i>Clarity and conciseness</i>
B.20: Application Material – Third Party Fraud 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.	Para. 29(a)(ii)(c), A21–A22, A56, A83	<ul style="list-style-type: none"> 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. Added application material that: <ul style="list-style-type: none"> Clarifies that fraud as defined in ISA 240 (Revised) can include an intentional act by a third party and explains with examples what third-party fraud is. Explains that the entity's risk assessment process may include an assessment of how the 	<ul style="list-style-type: none"> <i>Comprehensiveness</i> <i>Clarity and conciseness</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
		entity may be susceptible to third-party fraud.	
B.21: Requirements and Application Material – Audit Documentation 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).	Para. 67, A204	<ul style="list-style-type: none"> Added a requirement for the auditor to document: <ul style="list-style-type: none"> Key elements of the auditor's understanding, the sources of information from which the auditor's understanding was obtained and the risk assessment procedures performed. Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached. Added application material leveraging paragraphs 11 and A15 of ISA 230²⁶ dealing with the documentation of inconsistencies with the auditor's final conclusion regarding a significant matter. 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Clarity and conciseness</i> <i>Implementability</i> <i>Enforceability</i>
B.22: Application Material – External Confirmations Consider enhancing application material in ISA 240 related to fraud considerations for external confirmation procedures (e.g., when considering third party fraud), including: <ul style="list-style-type: none"> Modernizing ISA 240 for current practice and developments in technology, including technology used in practice for external confirmations. 	Paras. A128–A132	<ul style="list-style-type: none"> Added application material that: <ul style="list-style-type: none"> 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. Clarifies the relationship with ISA 505. The application material includes guidance and examples that: <ul style="list-style-type: none"> Are modernized for current practice and developments in technology; and 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Clarity and conciseness</i>

²⁶ ISA 230, *Audit Documentation*

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> Considering the impacts of revisions to ISA 500 on ISA 240 with respect to audit evidence obtained from the external confirmation process. Revising the existing guidance when there are non-responses. Emphasizing the usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud. 		<ul style="list-style-type: none"> Addresses fraud considerations for external confirmation procedures. 	
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			
<p>C.25: Requirements and Application Material – Professional Skepticism</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"> 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. 	<p>Paras. 12–13, 19–22, 42, A13–A14, A26–A36</p>	<ul style="list-style-type: none"> Added an introductory paragraph, which draws on the approach adopted in ISA 220 (Revised), ISA 315 (Revised 2019), and 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. 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 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Comprehensiveness</i> <i>Clarity and conciseness</i> <i>Implementability</i> <i>Coherence</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard- Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> Explaining the 'ramp up' of procedures when fraud is identified or suspected in the application material. 		<p>other things, approach each audit with a “fresh pair of eyes.”</p> <ul style="list-style-type: none"> 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. Added a requirement for the auditor to remain alert throughout the audit for information that is indicative of fraud or suspected fraud. Added a requirement for the auditor to design and 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. Added application material to: <ul style="list-style-type: none"> Explain the relationship with relevant guidance on professional judgment in ISQM 1 and ISA 220 (Revised). Regarding 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 	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
		<p>disclosed to the auditor.</p> <ul style="list-style-type: none"> ○ Explain how fraud, suspected fraud or alleged fraud may be identified or otherwise come to the auditor's attention. ○ Address circumstances or threats to relevant ethical requirements that may be encountered at, or near the end of the audit. 	
D. Project Objective: Enhance Transparency on Fraud-Related Procedures Where Appropriate, Including Strengthening Communications with Those Charged with Governance (TCWG) and the Reporting Requirements in ISA 240 and Other Relevant ISAs.			
D.27: Requirements and Application Material – Transparency in the Required Communications with TCWG and in the Auditor's Report			
<ul style="list-style-type: none"> • Enhance requirements and application material in ISA 240 to strengthen required communications with TCWG, including: <ul style="list-style-type: none"> ○ 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: 	<p>Paras. 21, 25, 32(c) –, 33(b), 34(b), 49(a), 54, 58(c)(i), 63-65, A32, A43–A47, A79–A81, A91–A94, A96–A97, A156–A160,</p>	<ul style="list-style-type: none"> • Added an overarching requirement to communicate with management and TCWG matters related to fraud at appropriate times throughout the audit engagement. Related application material explains 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. • Enhanced requirements and application material related to making inquiries of TCWG about certain fraud related matters, when obtaining an understanding of the entity's system of internal control. • Enhanced the requirement addressing inconsistent 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Implementability</i> • <i>Coherence</i>

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> ▪ Susceptibilities to misstatement due to management bias, and corroborating inquiries of management with TCWG. ▪ The auditor's evaluation of the entity's components of internal control (when performing risk assessment procedures in accordance with ISA 315 (Revised 2019)). ○ 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. ○ Enhancing the requirements in ISA 240 to emphasize the ongoing nature of communications with TCWG about fraud throughout the audit. ○ Clarifying in the application material of ISA 240 that effective participation by TCWG is influenced by their independence from management and their 	A193–A198	<p>responses to inquiries of management or TCWG.</p> <ul style="list-style-type: none"> • Added requirements and related application material, dealing with circumstances when the auditor identifies fraud or suspected fraud, for the auditor to make inquiries about the matter(s) with an appropriate level of management and, when appropriate in the circumstances, TCWG. • Added application material that: <ul style="list-style-type: none"> ○ Emphasizes that robust two-way communication between management or TCWG and the auditor assists in identifying and assessing the risks of material misstatements due to fraud. ○ 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. ○ 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 detect fraud. 	

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered ²²
	Paragraph	Description	
ability to objectively evaluate the actions of management.			
<ul style="list-style-type: none"> Explore²⁷ 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"> 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"> 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. Consideration of changes 	<p>Paras. 59–61, A175–A190</p>	<ul style="list-style-type: none"> Added a separate section in ISA 240 (Revised) (Auditor's Report) to emphasize the importance of transparency in the auditor's report related to fraud. Added requirements and application material that expand on ISA 701 and strengthen the requirements for the auditor to report KAMs related to fraud, including requirements for the auditor to: <ul style="list-style-type: none"> Determine, from the matters related to fraud communicated with TCWG, those matters that required significant auditor attention in performing the audit. Determine, from the matters which required significant auditor attention in performing the audit, which of the matters were of most significance in the audit of the financial statements of the current period and therefore are KAMs. The application material steers the auditor to communicate fraud related matters as a KAM by clarifying that: <ul style="list-style-type: none"> Matters related to fraud are often matters that require significant auditor attention; and 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Implementability</i> <i>Enforceability</i> <i>Coherence</i>

²⁷ 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.

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ²¹	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard- Setting Characteristics Considered ²²
	Paragraph	Description	
<ul style="list-style-type: none"> made by others in different jurisdictions. Considering revisions to clarify the interaction of KAMs and fraud-related matters. 		<ul style="list-style-type: none"> 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 KAMs. 	