Basis for Conclusions

Prepared by the Staff of the International Auditing and Assurance Standards Board® (IAASB)

International Standard on Auditing (ISA)

ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Including Conforming and Consequential Amendments to Other IAASB International Standards

JULY 2025

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About the IAASB

This document has been prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB). It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing (ISAs) or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

BASIS FOR CONCLUSIONS: INTERNATIONAL STANDARD ON AUDITING (ISA) 240 (REVISED)

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The Staff of the IAASB has prepared this Basis for Conclusions. It relates to, but does not form part of, ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, or the conforming and consequential amendments to other IAASB International Standards.

ISA 240 (Revised) and the conforming and consequential amendments to other IAASB International Standards were approved in March 2025 with affirmative votes of 16 out of 16 IAASB members.

Section A – Introduction

Drivers for the Project

1. High quality audits contribute to the efficiency of capital markets and financial stability. The public interest is best served when participants in the financial reporting system have confidence in audits of financial statements. However, corporate failures and scandals across the globe in recent years have brought the topic of fraud to the forefront and led to questions from stakeholders about the role and responsibilities of the auditor relating to fraud in an audit of financial statements.

Project to Revise Extant ISA 240[1]

2. Pursuant to the IAASB's focus on emerging public interest topics as described in the IAASB's Strategy for 2020–2023, the IAASB launched information-gathering activities on fraud in an audit of financial statements in early 2020. The objective of the information gathering and research activities was to further consider the issues and challenges in applying extant ISA 240, in light of the changing environment, jurisdictional developments and changing public expectations. The information-gathering and research activities included:

   - Publishing the Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*, for public consultation. In relation to fraud specifically, the Discussion Paper was intended to seek perspectives from stakeholders across the financial reporting ecosystem on whether extant ISA 240 needed to be revised to reflect the evolving external reporting landscape, and, if so, in what areas.
   - Undertaking a series of roundtables to gather stakeholders' perspectives on fraud and going concern in an audit of financial statements.[2]
   - Targeted outreach with regulators and audit oversight authorities, jurisdictional auditing standard setters, Forum of Firms, international financial reporting standard-setting bodies and others.

3. Based on the feedback received through its information-gathering and research activities, the IAASB concluded that extant ISA 240 should be updated. In December 2021, the IAASB approved a project proposal to revise ISA 240 and to make related conforming and consequential amendments to other relevant ISAs. The project aimed to enhance and clarify the auditor's responsibilities relating to fraud in an audit of financial statements. To support the public interest, the project objectives included:

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

2 In November 2020, the IAASB published a Summary of Key Take-aways, which summarizes what the IAASB heard from the roundtables with experts and leaders exploring issues and challenges related to fraud and going concern.

- Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements;
- Promote consistent behavior and facilitate effective responses to identified risks of material misstatement (ROMM) due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary;
- Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures; and
- 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.

4. Following the publication of the project proposal, the IAASB undertook outreach with various stakeholders, including users of financial statements, to obtain their views on enhancing the transparency of the auditor's report in relation to fraud. Engaging with users of financial statements was particularly important given the limited input received from this stakeholder group during the initial information-gathering phase.

5. In May 2022, the IAASB published non-authoritative guidance, *The Fraud Lens – Interactions Between ISA 240 and Other ISAs*, that illustrates the relationship between ISA 240 and other ISAs when planning and performing an audit engagement and reporting thereon. It also illustrates how ISA 240 is currently applied in conjunction with the full suite of ISAs.

Exposure Draft of Proposed ISA 240 (Revised)

6. At its December 2023 meeting, the IAASB approved the Exposure Draft of Proposed ISA 240 (Revised) (ED-240),[3] including related conforming and consequential amendments to other IAASB International Standards. ED-240 was issued on February 6, 2024, for a 120-day comment period that closed on June 5, 2024. The Explanatory Memorandum accompanying ED-240 highlighted, among other matters, the IAASB's significant proposals, explained how they support the project objectives and public interest, and sought responses to 12 questions relating to ED-240.

7. In total, 89 responses were received from a diverse range of stakeholders across all geographical regions. Respondents included two Monitoring Group members,[4] investors and other users, regulators and audit oversight authorities, jurisdictional auditing standard setters, accounting firms, public sector organizations, member bodies and other professional organizations, academics, individuals and others.

8. In addition to receiving written feedback, during and after the exposure period for ED-240, the IAASB undertook the following activities:

- Developed a short four-part video series,[5] to help stakeholders understand the proposals.

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[3] 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*

[4] The Monitoring Group comprises the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators, the International Organization of Securities Commissions and the World Bank. Responses to ED-240 were received from the International Forum of Independent Audit Regulators and the International Organization of Securities Commissions.

[5] The four-part video series can be accessed from the IAASB Fraud project page.

- Engaged in outreach with prudential regulators, Monitoring Group members and the International Federation of Accountants' Small and Medium Practices Advisory Group.
- Coordinated with the International Ethics Standards Board for Accountants (IESBA) with respect to ethics-related matters, such as key concepts, the definition of fraud, requirements relating to identified fraud or suspected fraud, fraud risk factors, and the linkages (references) to the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)*.
- Coordinated with other IAASB Task Forces and Working Groups.

9. This document outlines the IAASB's basis for conclusions with respect to comments received on ED-240, focusing on areas of ED-240 where significant feedback was provided or where the IAASB engaged in significant deliberations. It addresses comments related to the following topics:
   - Public Interest Issues Addressed (see Section B);
   - Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (see Section C);
   - Professional Skepticism (see Section D);
   - Risk Assessment (see Section E);
   - Fraud or Suspected Fraud (see Section F);
   - Stand-Back Requirement (see Section G);
   - Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report (see Section H);
   - Linkages to Other ISAs (see Section I);
   - Other Matters (see Section J); and
   - Effective Date (see Section L).

Section B – Public Interest Issues Addressed

10. In developing ISA 240 (Revised), the IAASB considered the qualitative standard-setting characteristics outlined in paragraph 26 of the project proposal and those set out in the Public Interest Framework.[6] These characteristics served as criteria for assessing the proposed standard's responsiveness to the public interest.

11. The **Appendix** to this Basis for Conclusions maps the key aspects of ISA 240 (Revised) to the objectives and standard-setting actions in the project proposal that support the public interest. It also highlights the following qualitative standard-setting characteristics that were most prominent in the development of ISA 240 (Revised):

[6] See the Public Interest Framework published by the Monitoring Group in July 2020 (as part of their report "*Strengthening the International Audit and Ethics Standard-Setting System*"). The Public Interest Framework sets out a framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. Among other matters, the Public Interest Framework explains for whom standards are developed, what interests need to be served and what characteristics standards should exhibit.

- *Scalability* – focuses on the proportionality of the standard's relative impact on different stakeholders, by including requirements that can be applied to all entities, regardless of size and complexity.
- *Relevance* – focuses on recognizing and responding to emerging issues and, evolving stakeholder needs through the development of principles-based requirements that enable the objectives of those requirements to be achieved in differing circumstances.
- *Comprehensiveness* – addresses limiting the extent to which there are exceptions to the principles set out in the standard.
- *Clarity and Conciseness* – focuses on enhancing the understandability and minimizing the likelihood of differing interpretations, and thus supporting proper intended application and facilitating implementation.
- *Implementability* – focuses on the standard being able to be consistently applied and globally operable across entities of all sizes and regions, respectively, as well as being adaptable to the different conditions prevalent in different jurisdictions.
- *Enforceability* – focuses on clearly stated responsibilities of the auditor that make it possible to ascertain the extent to which an auditor has complied with the standards.
- *Coherence* – addresses the interoperability with the overall body of standards and removing any potential conflicts for requirements addressing the same subject matter.

Section C – Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Background

12. A key objective of the project proposal was to clarify the auditor's role and responsibilities relating to fraud in an audit of financial statements. ED-240 addressed this objective through several targeted enhancements:

    - *Repositioning of the auditor's responsibilities*: The description of the auditor's responsibilities relating to fraud was moved earlier in the standard—before the description of the responsibilities of management and TCWG. This structural change enhances clarity by presenting the auditor's responsibilities more prominently.
    - *Separation from inherent limitations*: In extant ISA 240, the auditor's responsibilities and the inherent limitations of an audit were described together in a single paragraph. In ED-240, these topics were addressed in separate paragraphs. This enhancement makes the description of the auditor's responsibilities more succinct and unencumbered by language that may be construed as diminishing the auditor's responsibilities relating to fraud in an audit of financial statements.
    - *Emphasis on auditor accountability despite inherent limitations*: The IAASB introduced a statement in paragraph 9 of ED-240 to clarify that the existence of inherent limitations does 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. The IAASB also introduced a statement in paragraph 10, drawn

from paragraph A57 of ISA 200,[7] clarifying that inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.

Summary of Comments Received on Exposure

13. Respondents were generally supportive of the enhancements proposed in ED-240 (as summarized in paragraph 12 above) to clarify the responsibilities of the auditor relating to fraud in an audit of financial statements. However, respondents also recommended that the IAASB:

- Reconsider the repositioning of the description of the auditor's responsibilities relating to fraud. Respondents noted that it could be misconstrued as suggesting that the auditor, rather than management and TCWG, holds the primary responsibility for the prevention and detection of fraud.
- Clarify in ISA 240 (Revised) that the auditor is not responsible for detecting fraud. To support this view, these respondents pointed to paragraph 2 of ED-240, which does not explicitly state such a responsibility, and to paragraph 6, which emphasizes that auditors are not expected to make legal determinations about whether fraud has actually occurred. This view, however, was not widely held among respondents.
- Revisit whether the definition of fraud remains appropriate, including whether it needs to specifically refer to bribery, corruption and money-laundering as fraudulent acts.
- Provide further clarity on the auditor's responsibilities and related work effort regarding fraud committed by third parties.
- Place greater emphasis on the inherent limitations of an audit to appropriately contextualize the auditor's responsibilities, particularly in relation to factors beyond the auditor's control.

IAASB Decisions

Repositioning of Description of the Auditor's Responsibilities Relating to Fraud

14. The IAASB reaffirmed that the intent behind repositioning the description of the auditor's responsibilities related to fraud in an audit of financial statements was to ensure that the auditor's responsibilities are presented more prominently within the standard, thereby enhancing clarity regarding the auditor's role in the context of an audit. The IAASB noted that this does not alter the existing balance of responsibilities among the auditor, management, and TCWG. The auditor's responsibilities remain unchanged from extant ISA 240, as reflected in paragraph 3 of ISA 240 (Revised), which states that the "*primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity*."

Auditor's Responsibilities Relating to Detecting Fraud

15. The IAASB acknowledged the feedback from respondents to ED-240 expressing the view that auditors are not responsible for detecting fraud in an audit of financial statements. However, the IAASB reaffirmed that this responsibility is integral to ISA 240 (Revised) for the following reasons:

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

- Although paragraph 2 does not explicitly state that auditors are responsible for detecting fraud, the IAASB noted that the responsibility to detect material misstatements due to fraud is integral to the auditor's overall objectives in audits of financial statements. The auditor is required to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. As such, the detection of material misstatements arising from fraud is inherently part of the auditor's responsibilities. However, due to the inherent limitations of an audit in detecting fraud (as outlined in paragraph 10 of ISA 240 (Revised)), there is a risk that some material misstatements due to fraud may not be detected, even when the audit is properly planned and performed in accordance with the ISAs.
- The IAASB also discussed the intent of paragraph 6 and noted that it is to clarify that auditors are not responsible for making legal determinations about whether fraud has actually occurred. While auditors are responsible for identifying and responding to ROMMs due to fraud, including identifying material misstatements due to fraud, determinations regarding whether an act constitutes fraud in a legal sense are matters for courts, regulatory agencies, or other legal authorities.

Definition of Fraud, Including how it Relates to Corruption, Bribery and Money-Laundering

16. The IAASB reaffirmed its decision, as set out in the project proposal, not to change the definition of fraud. The IAASB also reaffirmed its decision to avoid suggesting that corruption, bribery and money laundering should always be regarded by auditors as either illegal acts (i.e., and, therefore, within the scope of ISA 250 (Revised)[8]) or fraudulent (i.e., and, therefore, within the scope of ISA 240 (Revised)). Whether these acts violate laws or regulations, including criminal laws, is to be determined in the applicable jurisdictions where the acts are committed. This variability necessitates a nuanced approach by the IAASB, acknowledging the distinct legal and regulatory landscapes worldwide.

Third-Party Fraud

17. The definition of fraud in paragraph 18(a) of ISA 240 (Revised), which explicitly includes fraud committed by third parties, remains unchanged from extant ISA 240. The IAASB reaffirmed its position, as set out in the explanatory memorandum to ED-240 (see paragraph 92), that the new requirements and application material introduced in ED-240 were not intended to expand the auditor's responsibilities with respect to third-party fraud. Instead, these additions were intended to clarify what is expected of the auditor in this area.

18. In response to stakeholder feedback requesting greater clarity about which third parties should be considered by the auditor and the related work effort in identifying and assessing ROMMs due to third-party fraud, the IAASB made several targeted revisions. Application material was added in paragraph A23 of ISA 240 (Revised) to help auditors identify relevant third parties when identifying and assessing ROMMs due to third-party fraud. An illustrative example was also added to paragraph A89 to demonstrate how the auditor can use their understanding of the entity's risk assessment process (paragraphs 33(a)(i)–(iii) of ISA 240 (Revised)) to inform their own fraud risk assessment, including consideration of third-party fraud risks.

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

19. The IAASB also noted that the enhancements introduced in ED-240 had already contributed to clarifying the auditor's responsibilities with respect to third-party fraud. In addition to the enhancements described in the explanatory memorandum to ED-240 (see paragraphs 91–92), a new requirement was added in paragraph 29(a)(ii)c. of ISA 240 (Revised) for the engagement team to exchange ideas about how assets could be misappropriated by third parties. Supporting application material was also added (see paragraph A84 of ISA 240 (Revised)) to provide context for the requirement to understand the entity's risk assessment process, as set out in paragraph 33(a) of ISA 240 (Revised)). This material explains that the auditor's understanding may include consideration of the entity's own assessment of its susceptibility to third-party fraud.

Inherent Limitations of an Audit

20. The IAASB decided not to introduce new inherent limitations into ISA 240 (Revised). The IAASB concluded that adding additional examples or descriptions of inherent limitations, such as the inability to "search for and seize documents" or "interrogate individuals," which are legal powers held by investigators, could detract from the clarity of the auditor's responsibilities. Such powers are not part of the auditor's role and are generally understood to fall outside the scope of an audit engagement.

Section D – Professional Skepticism

Background

21. A key objective of the project proposal was to reinforce the importance of exercising professional skepticism in fraud-related audit procedures throughout the audit. This objective was pursued in ED-240 through a number of targeted enhancements, including:

- Adding key concepts in the introductory paragraphs to emphasize that the auditor exercises professional skepticism and professional judgment, in accordance with ISA 200, when planning and performing an audit.
- Removing references to beliefs held by the auditor about management and TCWG being honest and having integrity.
- Introducing a new requirement for the auditor to remain alert throughout the audit for circumstances that may be indicative of fraud or suspected fraud.
- Removing the lead-in sentence that preceded the conditional requirement triggered when the auditor identifies conditions that lead them to believe that a record or document may not be authentic or may have been modified. Specifically, the IAASB removed: "*Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.*"
- Introducing a new requirement for the auditor to design and perform audit procedures in response to assessed fraud risks in a manner that is not biased toward obtaining evidence that supports management's assertions or excludes evidence that may contradict them.
- Adding application material to explain that the use of automated tools and techniques in fraud-related procedures may enhance the auditor's ability to exercise professional skepticism.

Summary of Comments Received on Exposure

22. Respondents generally agreed that the IAASB had achieved its objective of reinforcing the importance of exercising professional skepticism in fraud-related audit procedures.

23. However, there were significantly divergent views regarding the revisions related to the authenticity of records and documents (i.e., relating to the conditional requirement in paragraph 22 of ISA 240 (Revised)).

- Respondents from accounting firms, member bodies, and other professional organizations generally expressed concerns that the removal of the lead-in sentence in paragraph 22—"*Unless the auditor has reason to believe the contrary, the auditor may accept the records and documents as genuine*"—may be misinterpreted. These respondents argued that, when considered alongside new application material, this deletion could be perceived as expanding the auditor's responsibilities regarding the authenticity of information intended to be used as audit evidence. They emphasized that this concept, also present in ISA 200 (paragraph A24), is foundational and should remain in ISA 240 (Revised).
- On the other hand, regulators and audit oversight bodies generally believed the IAASB's revisions did not go far enough. They supported the removal of the sentence in paragraph 22 but encouraged the IAASB to take it a step further by also removing the related concept from ISA 200 (paragraph A24), to further reinforce the importance of exercising professional skepticism when provided with records or documents to be used as audit evidence.

24. Respondents also recommended that the IAASB:

- Reinstate references to the auditor's past experience with the honesty and integrity of management and TCWG. Respondents noted that such references in extant ISA 240 served to reinforce, rather than diminish, the exercise of professional skepticism, as they explicitly remind the auditor to disregard prior beliefs and maintain an objective mindset.
- Further revise the requirement in paragraph 21 of ED-240, which addresses the need for auditors to remain alert throughout the audit for information indicative of fraud or suspected fraud, by:
    - Expanding the requirement to include remaining alert to information that indicates fraud risk factors are present, in addition to indications of fraud or suspected fraud.
    - Narrowing the scope of the requirement so that it applies only to indications of fraud or suspected fraud that could have a material effect on the financial statements.
- Reinstate the requirement in paragraph 30 of ED-240, which addresses inconsistent responses to inquiries, to its original placement in extant ISA 240, specifically within the requirements dealing with professional skepticism. Respondents noted that auditors may encounter inconsistent responses at any stage of the audit and therefore placement within the broader context of professional skepticism is more appropriate.
- Introduce the concept of a "suspicious mindset" in ISA 240 (Revised) and incorporate stronger language such as "challenge," "question," or "reconsider" as a means of eliciting a more appropriate exercise by the auditor of professional skepticism.

IAASB Decisions

Authenticity of Records and Documents

25. The IAASB reaffirmed its decision to remove the sentence regarding accepting records and documents as genuine from the conditional requirement in paragraph 20 in ED-240 (paragraph 22 of ISA 240 (Revised)). This decision reflects the view that the conditional requirement appropriately focuses on

situations where conditions are identified that cause the auditor to believe a record or document is not authentic or has been altered, thereby requiring further investigation. Based on that investigation, the auditor may determine that the circumstances are indicative of fraud or suspected fraud, which would trigger the need to perform the audit procedures in paragraphs 55–58 of ISA 240 (Revised).

26. Importantly, while the auditor is not required to design procedures specifically to identify conditions that cause the auditor to believe a record or document is not authentic or has been altered, such conditions may be identified at any stage of the audit, including when applying procedures under other ISAs. For example, such conditions may be identified while fulfilling responsibilities under ISA 500,[9] including when considering the reliability of information intended to be used as audit evidence—that is, authenticity may be an attribute considered when evaluating whether such information is reliable. Similarly, conditions may be identified when performing audit procedures under ISA 240 (Revised) or other ISAs, or may come to the auditor's attention through other sources, both internal and external to the entity. Accordingly, the IAASB decided to retain the conditional requirement in paragraph 22 of ISA 240 (Revised) and to update and further clarify the auditor's responsibilities in the application material in paragraphs A34-A37 of ISA 240 (Revised), including appropriate references to other ISAs.

27. Regarding the recommendation to make a consequential amendment in paragraph A24 of ISA 200 to remove the lead-in sentence, the IAASB concluded that the merits of such an amendment should be considered by the Audit Evidence and Risk Response project team. Some stakeholders have noted that revisions to proposed ISA 500 (Revised), as presented in the Pre-finalization Holding Package at the March 2024 IAASB meeting (see Agenda Item 5-A), have strengthened the auditor's work effort in evaluating the reliability of information intended to be used as audit evidence, including with regard to the attribute of authenticity of records and documents. As such, the IAASB concluded that the Audit Evidence and Risk Response project team is better positioned to consider whether a consequential amendment to paragraph A24 of ISA 200 is warranted as that project progresses.

Beliefs about the Honesty and Integrity of Management and TCWG Based on Past Experience

28. The IAASB reaffirmed its view that references to the auditor's beliefs about the honesty and integrity of management and TCWG based on past experience are not necessary in ISA 240 (Revised). While the IAASB acknowledges that the intent of such references in the extant standard was to prompt auditors to set aside preconceived notions, the IAASB believes they may inadvertently divert attention from the specific circumstances of the current engagement. By removing these references, the IAASB aims to focus attention on the current engagement and encourage the auditor to approach it with a "fresh pair of eyes," thereby supporting the appropriate exercise of professional skepticism.

Remaining Alert to Indications of Fraud or Suspected Fraud

29. The IAASB agreed to expand the requirement in paragraph 21 of ED-240 (paragraph 20 in ISA 240 (Revised)) to include remaining alert to information that may indicate the presence of fraud risk factors. The IAASB viewed this as an important enhancement, underscoring that the exercise of professional skepticism necessitates ongoing alertness by the auditor of fraud risk factors, particularly because fraud risk factors are frequently present in situations where fraud occurs.

30. The IAASB did not support narrowing the scope of the requirement to apply only to instances of fraud or suspected fraud that may have a material effect on the financial statements. The IAASB reaffirmed

[9] ISA 500, *Audit Evidence*

its view that when fraud or suspected fraud is identified during an audit, the auditor must apply the relevant procedures set out in paragraphs 55–58 of ISA 240 (Revised). These procedures are not limited to situations in which identified fraud or suspected fraud is ultimately determined to have a material effect on the financial statements. This is because the auditor cannot make that determination, nor respond appropriately, without first understanding the identified matter and fulfilling related responsibilities. Accordingly, the fraud or suspected fraud section also includes requirements that assist the auditor in addressing all identified instances of fraud or suspected fraud.

Inconsistent Responses to Inquiries

31. The IAASB decided to move the requirement in paragraph 30 of ED-240, which addresses inconsistent responses to inquiries, back to its original placement within the professional skepticism section (now paragraph 21 of ISA 240 (Revised)). The requirement applies to inquiries made of management, TCWG, individuals within the internal audit function, and others within the entity. The IAASB agreed that the requirement is not limited to inquiries made during the risk assessment process but applies at any stage of the audit.

32. In addition, the IAASB introduced new application material (see paragraph A33 of ISA 240 (Revised)) to clarify that the requirement encompasses inconsistencies identified both between the specified groups of individuals and within the same group.

Auditor Mindset

33. The IAASB agreed not to change its view, as set out in the project proposal, not to incorporate the concept of a "suspicious mindset" into the requirements of ISA 240 (Revised). The IAASB also chose not to introduce stronger language such as "challenge," "question," or "reconsider," in order to avoid creating ambiguity between the nature of a financial statement audit and that of a forensic audit.

Section E – Risk Identification and Assessment

Background

34. In developing the proposed changes relating to risk identification and assessment as set out in ED-240, the IAASB sought to maintain an appropriate balance between the procedures already addressed in ISA 315 (Revised 2019)[10] and the enhancements in ED-240. ED-240 was designed to apply a fraud lens to the procedures in ISA 315 (Revised 2019). Accordingly, the IAASB added new and enhanced requirements based on ISA 315 (Revised 2019) and restructured extant ISA 240 to align its structure more closely with that of ISA 315 (Revised 2019).

Summary of Comments Received on Exposure

35. Generally, there was broad support for the enhancements to the risk identification and assessment section of ED-240. Respondents noted that the revisions will lead to a more robust identification and assessment of fraud risks, promote more consistent auditor behavior in applying the requirements, and reinforce the importance of exercising professional skepticism throughout the audit.

36. Respondents encouraged the IAASB to further clarify certain requirements, particularly relating to management override of controls, the relationship between inherent risk factors and fraud risk factors,

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

the engagement team discussion and the presumption of ROMMs due to fraud in revenue recognition. In addition, respondents noted that the requirements in ED-240 duplicated some of the requirements in ISA 315 (Revised 2019) (see Section I).

37. Respondents also encouraged the IAASB to include a requirement for auditors to obtain an understanding of the whistleblower program, rather than addressing it solely in the application material. They noted that the whistleblower program plays an important role in identifying fraud. Other respondents favored the approach in ED-240 of referring to the usefulness of obtaining an understanding of the whistleblower program in application material. They were concerned that the introduction of a requirement to obtain an understanding of the whistleblower program may prompt auditors to inappropriately conclude that the absence of a whistleblower program is in all cases a control deficiency.

38. Respondents asked the IAASB to clarify whether the significant risk related to management override of controls exists at the financial statement level or at the assertion level for classes of transactions, account balances and disclosures, or both.

39. Respondents suggested that the IAASB provide additional clarification on how fraud risk factors relate to, or differ from, inherent risk factors as described in ISA 315 (Revised 2019). Respondents also asked the IAASB to clarify whether fraud risk factors are a subset of inherent risk factors.

40. Generally, respondents supported the enhancements to the engagement team discussion requirement. However, respondents further suggested reinforcing the iterative and dynamic nature of the risk identification and assessment process by requiring the engagement partner to determine whether additional discussions among engagement team members and other experts are warranted at other times during the audit.

41. Respondents expressed mixed views on the proposed enhancements to the presumption of a ROMM due to fraud in revenue recognition. On the one hand, respondents were of the view that ED-240 continued to place too much emphasis on the rebuttal of the presumption of the ROMM due to fraud in revenue recognition. On the other hand, others considered the approach too restrictive, noting that the rebuttal may still be appropriate for certain entities, such as smaller or less complex entities and public sector entities. Respondents suggested various ways to enhance the requirement and application material, including removing the word ‘ordinarily’ in paragraph A110 of ED-240.

IAASB Decisions

Whistleblower Program

42. The IAASB agreed that adding a conditional requirement for the auditor to obtain an understanding of the whistleblower program, if such program exists, will strengthen the robustness of fraud risk identification and assessment. Therefore, the IAASB included a requirement to that effect in paragraph 32(a) of ISA 240 (Revised).

43. Although the term “whistleblower program” is commonly understood, the IAASB recognized that the auditor may not apply the requirement if an entity uses different terminology to describe its program for reporting fraud differently (this may be the case in smaller or less complex entities). To address this, the IAASB clarified that the requirement applies to any program for reporting fraud, regardless of the terminology used by the entity and included in the application material examples of alternative terms that may be used by an entity to describe a program to report fraud. In addition, the application

material explains how the design of a whistleblower program could vary depending on the nature and complexity of the entity, including the entity's exposure to fraud risks.

Risks of Management Override of Controls

44. The IAASB discussed respondents' comments on whether the risks of management override of controls exist at the financial statement or assertion level. In doing so, the IAASB discussed whether a ROMM at the financial statement level can be a significant risk. In doing so, the IAASB considered the definition of a significant risk:

> Significant risk – An identified risk of material misstatement:
>
> (i) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
>
> (ii) That is to be treated as a significant risk in accordance with the requirements of other ISAs.

45. The IAASB noted that under ISA 315 (Revised 2019) and ISA 330[11] a significant risk relates to ROMMs at the assertion level (see paragraph 32 of ISA 315 (Revised 2019) and paragraph 15 and 21 of ISA 330). However, the definition of a significant risk includes the possibility that a ROMM at the financial statement level could be treated as a significant risk in accordance with the requirements of other ISAs. As ISA 240 (Revised) paragraph 39(b) requires the auditor to treat any assessed ROMMs due to fraud as significant risks, the IAASB agreed that in the case of ISA 240 (Revised) a ROMM due to fraud at the financial statement level should be treated as a significant risk.

46. Given that a ROMM at the financial statement level in ISA 240 (Revised) is treated as a significant risk, the IAASB also concluded that risks of management override of controls shall be treated as ROMMs due to fraud at the financial statement level because:

- Risks of management override of controls often affects multiple assertions and therefore has a pervasive effect on the financial statements.
- The responses to the assessed ROMM due to fraud related to management override of controls as included in ISA 240 (Revised) (see paragraphs 47–52) are intended to be inclusive of all classes of transactions, account balances and disclosures. For example, the prescribed procedures take into account journal entries that are recorded in the preparation of financial statements, including for all classes or transactions, account balances and disclosures and do not limit the procedures to certain populations.

47. However, consistent with ISA 315 (Revised 2019), for identified ROMMs at the financial statement level, the auditor is required to determine whether risks of management override of controls affect the assessment of risks at the assertion level (see paragraph 40(b)). The IAASB also provided guidance to further illustrate how risks of management override of controls may affect individual assertions and related significant classes of transactions, account balances and disclosures. The IAASB believed that this emphasis was necessary to promote the intended behavior from the auditor to reflect on the specific risks of management override of controls depending on the facts and circumstances of the audit engagement.

[11] ISA 330, *The Auditor's Responses to Assessed Risks*

48. The IAASB recognized that there may be other ROMMs due to fraud that exist at the financial statement level (and are therefore significant risks). However, as noted in paragraph 45 above, ISA 330 does not address responses to significant risks at the financial statement level. Recognizing this concept is specific to ISA 240 (Revised), the IAASB included application material (paragraph A128 of ISA 240 (Revised)) that indicates that a significant risk at the financial statement level has a different bearing on the auditor's overall responses to such risks. The IAASB also provided guidance on the appropriate overall responses when responding to ROMMs due to fraud that exist at the financial statement level (and are therefore significant risks).

Relationship Between Inherent Risk Factors and Fraud Risk Factors

49. In response to respondents' comments on the relationship between fraud risk factors and the inherent risk factors as described in ISA 315 (Revised 2019), the IAASB revised application material in paragraph A24 of ISA 240 (Revised) to clarify that:

    - Fraud risk factors may be inherent risk factors, insofar as they affect inherent risk, and may be due to management bias. They may also arise from other identified inherent risk factors (e.g., complexity or uncertainty may create opportunities that result in a susceptibility to misstatement due to fraud); or
    - Fraud risk factors may be control risk factors when they relate to events or conditions that may exist in the entity's system of internal control that provide an opportunity to commit fraud and are relevant to the consideration of the entity's controls (i.e., related to control risk), and may be an indicator that other fraud risk factors are present.

    Given the above, fraud risk factors are not a subset of inherent risk factors.

Engagement Team Discussion

50. The IAASB acknowledged respondents' comments emphasizing the importance of reinforcing the iterative nature of the risk identification and assessment process. The IAASB considered adding a requirement for subsequent engagement team discussions but concluded that doing so might imply that multiple engagement team discussions are mandatory. Instead, the IAASB reinforced the iterative nature of the process by adding a reference to paragraph A43 of ISA 240 (Revised), which describes circumstances in which expanding the extent and frequency of engagement team discussions may be appropriate.

Presumption of ROMMs Due to Fraud in Revenue Recognition

51. The IAASB reflected on the respondents' suggestions to enhance the application material and concluded that:

    - Concerns regarding auditors limiting the identification and assessment of ROMMs due to fraud in revenue recognition to manual journal entries and the cut-off assertion were viewed as a "performance" issue and that ISA 240 (Revised) clearly requires auditors to carefully identify and assess the specific ROMMs due to fraud in revenue recognition.
    - The use of the word "ordinarily" in paragraph A122 of ISA 240 (Revised) is appropriate and accomplishes the objective as set out in the project proposal, without precluding the rebuttal when circumstances have been met based on the auditor's professional judgment.

52. The IAASB enhanced the examples included in paragraph A123 of ISA 240 (Revised) to incorporate the fraud triangle concepts.[12] The IAASB was of the view that the addition will clarify circumstances that may result in the auditor concluding that the rebuttal of the presumption of ROMMs due to fraud in revenue recognition is appropriate.

Section F – Fraud or Suspected Fraud

Background

53. To enhance clarity around the auditor's response when fraud or suspected fraud is identified in the audit, the IAASB proposed in ED-240 to:

- Add a separate section that groups the requirements that are applicable when fraud or suspected fraud is identified during an audit.
- Add new requirements, relocate existing requirements, convert existing application material to requirements, and enhance application material.

Summary of Comments Received on Exposure

54. Respondents broadly supported the proposed revisions in ED-240, noting that they improved clarity regarding how the auditor should respond to identified instances of fraud or suspected fraud. However, respondents recommended that the IAASB:

- Enhance the scalability and proportionality of the related requirements to better reflect the range of circumstances encountered in practice. For example, respondents raised concerns about the practicability of requiring the auditor to apply all the fraud or suspected fraud requirements to matters that appear to lack merit, have no impact on the audit and that do not give rise to additional responsibilities under law, regulation or relevant ethical requirements. Respondents also questioned the feasibility of the requirement in paragraph 56 of ED-240 for the engagement partner to determine the impact on the audit approach of all identified instances of fraud or suspected fraud, suggesting that a threshold should be introduced to support a more scalable and proportionate response.
- Align the ED-240 requirements for communication with TCWG regarding fraud or suspected fraud with the corresponding requirements in ISA 250 (Revised).
- Clarify how auditors should apply the fraud or suspected fraud requirements in the context of a group audit.

IAASB Decisions

Scalability and Proportionality

55. The IAASB recognized the importance of enhancing the scalability and proportionality of the requirements related to fraud or suspected fraud. For example, auditors may encounter a large number of allegations of fraud—paragraph A10 of ISA 240 (Revised) clarifies that such allegations are considered suspected fraud and are therefore subject to the relevant requirements—even when some may ultimately be determined to be spurious or without merit. To address this, the IAASB introduced a threshold that allows

[12] The fraud triangle concepts are (i) an incentive or pressure to commit fraud, (ii) an opportunity to commit fraud or (iii) an attitude or rationalization that justifies the fraudulent action.

the auditor to exclude from further consideration those instances of fraud or suspected fraud that are clearly inconsequential, provided the auditor has first obtained a sufficient understanding of the matters, as required by paragraph 55 of ISA 240 (Revised).

56. To further support the application of the "clearly inconsequential" threshold, the IAASB introduced additional application material in paragraph A162 of ISA 240 (Revised). This material clarifies that the auditor may consider their understanding of the entity's whistleblower program, including the entity's process for identifying matters that warrant further investigation and for excluding those that are without merit, to inform the auditor's own determination of which matters are clearly inconsequential and therefore require no further attention.

57. The introduction of the "clearly inconsequential" threshold also ensures that the engagement partner only considers matters that may impact the overall audit approach as required by paragraph 56 in ED-240. Based on feedback received from respondents, the IAASB also considered, but ultimately decided against, revising the requirement in paragraph 56 of ED-240 to only require the engagement partner to "take responsibility" for the determination of whether an identified matter impacts the overall audit approach. The IAASB concluded that it is important for the engagement partner to fulfill this requirement directly. However, the IAASB clarified that the ISAs permit the engagement partner to use information obtained by other members of the engagement team, including component auditors in a group audit, to support their determination (see ISA 240 (Revised), paragraph A164).

Consistency of ISA 240 (Revised) and ISA 250 (Revised) Regarding the Fraud or Suspected Fraud Communication Requirements with TCWG

58. The IAASB revised the threshold for communicating fraud or suspected fraud involving "others" to TCWG, from only matters that have a material impact on the financial statements to matters that are more than clearly inconsequential. This change addresses an inconsistency between the communication requirements in paragraph 67 of ED-240 and paragraph 23 of ISA 250 (Revised). Specifically, paragraph 67 of ED-240 required the auditor to communicate such matters only if they resulted in a material misstatement of the financial statements. In contrast, paragraph 23 of ISA 250 (Revised) requires the auditor to communicate instances of non-compliance with laws and regulations (NOCLAR) to TCWG unless the matters are clearly inconsequential. Given that fraud ordinarily constitutes a form of NOCLAR, as noted in paragraph 14 of ISA 240 (Revised), aligning the communication threshold in paragraph 65 of ISA 240 (Revised) helps promote consistency across the ISAs.

Consequential Amendments to ISA 600 (Revised)[13]

59. To clarify that the group auditor takes responsibility for obtaining an understanding of fraud or suspected fraud in accordance with paragraph 55 of ISA 240 (Revised), the IAASB introduced a requirement in paragraph 44A of ISA 600 (Revised). This requirement applies regardless of whether the fraud or suspected fraud is identified by the component auditor or the group auditor. Paragraph 11 of ISA 600 (Revised) explains that when the term "the group auditor shall take responsibility for" is used in a requirement, the group auditor may assign the design and performance of related procedures to appropriately skilled and suitably experienced members of the engagement team, including component

[13] ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

auditors. However, this does not change the group engagement partner's ultimate responsibility and accountability for the audit.

60. The IAASB also introduced a consequential amendment in paragraph 45(h) of ISA 600 (Revised), which addresses the communication from the component auditor to the group auditor. This amendment lowers the threshold for the types of fraud or suspected fraud involving "others" (i.e., individuals other than component management or employees who have significant roles in the group's system of internal control at the component) that must be communicated. Specifically, the requirement now extends beyond instances that are "material" to the component's financial information to include any fraud or suspected fraud, except for matters that are "clearly inconsequential." This amendment supports the group auditor's responsibility to inform TCWG of the group about all known instances of fraud or suspected fraud, other than those that are clearly inconsequential (see also paragraph 58 above).

Section G – Stand-Back Requirement

Background

61. In developing ED-240, the IAASB discussed whether to include a stand-back requirement. The IAASB concluded that a stand-back requirement was not needed considering stand-back requirements and guidance in other ISAs. The IAASB noted that these also apply to audit evidence obtained from audit procedures performed in accordance with ED-240. The IAASB was also mindful of the concern raised by stakeholders about the proliferation of stand-back requirements in the ISAs.

Summary of Comments Received on Exposure

62. Respondents had mixed views on whether to include a stand-back requirement in ED-240. Those who supported the IAASB's decision noted that the existing stand-back requirements in other ISAs, including ISA 315 (Revised 2019) and ISA 330 are sufficient. Nevertheless, some of these respondents also suggested adding application material that refers to the applicable stand-back requirements in other ISAs.

63. Respondents who disagreed with the IAASB's decision believed a separate stand-back requirement is necessary to emphasize the importance of the auditor remaining alert to information that is indicative of fraud risk factors or instances of fraud or suspected fraud. These respondents also pointed to the need for the IAASB to develop a framework that describes a coherent approach for integrating stand-back requirements across the suite of ISAs.

IAASB Decisions

64. The IAASB decided to introduce a stand-back requirement in paragraph 54 of ISA 240 (Revised) to address concerns raised by respondents and in light of new insights that emerged from a framework developed by the Audit Evidence-Risk Response project team.

65. The framework describes the nature and characteristics of a stand-back and an approach for integrating stand-back requirements across the suite of ISAs and identifies three specific circumstances, which are not mutually exclusive, where a subject matter-specific stand-back requirement could be considered:

- More complex areas of the audit.
- Special considerations that warrant separate attention.

- Matters that are pervasive to the financial statements as a whole.

Accordingly, the IAASB concluded that the topic of fraud warrants a stand-back requirement.

Section H – Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report

Background

66. ED-240 included proposals to enhance the transparency of the auditor's report about the auditor's responsibilities related to fraud in an audit of financial statements to address the comments expressed by stakeholders for more transparency in the auditor's report related to fraud. These proposals included:

- Introducing new requirements, and related application material, on communicating key audit matters (KAMs) related to fraud in the auditor's report. The IAASB agreed on using the existing KAM mechanism in ISA 701[14] in developing requirements and application material; and
- Expanding the description of the auditor's responsibilities related to fraud as included in ISA 700 (Revised).[15]

Summary of Comments Received on Exposure

67. Respondents generally supported the need to enhance transparency in the auditor's report concerning matters related to fraud. However, there were mixed views on how to operationalize the approach especially related to:

- *Placement of requirements.* Respondents noted that the fraud specific requirements related to KAMs in ED-240 had an insufficient fraud lens and might create a parallel KAM determination process for fraud-related matters.
- *Driving the auditor to communicate KAMs related to fraud*. With respect to the requirements and application material that were included to drive the auditor to communicate KAMs related to fraud, respondents noted that:
    - The proposed requirement to have an explicit negative statement when no KAMs related to fraud are included in the auditor's report could widen the expectations gap as users of the financial statements may imply a higher level of assurance than reasonable assurance. In addition, it was noted that it was inconsistent with paragraph 14 of ISA 701, which allows for certain KAMs to be omitted from the report under specific circumstances.
    - The application material (particularly paragraphs A168, A170 and A176 of ED-240) may be interpreted as being an implicit requirement to always include KAMs related to fraud.
- *Risk of boilerplate KAMs*. Respondents were of the view that ED-240 may result in KAMs related to fraud becoming boilerplate and thereby not meaningful for users of the auditor's report.
- *Reference to fraud in the KAM section heading.* Respondents noted that the change in the heading to "Key Audit Matters Including Matters Related To Fraud" can be interpreted as requiring the auditor to identify at least one KAM related to fraud to communicate in the auditor's report and that

[14] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[15] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

the section heading may be misleading when no KAMs related to fraud are communicated.

- *Reference to fraud in the sub-headings.* With respect to the requirement to use an appropriate subheading that clearly describes that the matter relates to fraud, respondents noted that this is not necessary as it gives matters related to fraud more prominence than other KAMs. It was also noted that it is rare for a KAM to only deal with fraud and that it is more likely that an applicable KAM will contain both elements of ROMM due to fraud and error.

IAASB Decisions

Placement of Requirements

68. The IAASB decided to retain the placement of the requirements in ISA 240 (Revised) because of:

    - The overall approach taken when developing ISA 240 (Revised). ISA 240 (Revised) adds a fraud lens to other ISAs which is the intent of the requirements related to transparency in the auditor's report. The IAASB did clarify the interaction of ISA 240 (Revised) and other ISAs by enhancing paragraph 1 of ISA 240 (Revised) (also see Section I).
    - The lack of new considerations and viewpoints expressed by respondents compared to views obtained before the exposure draft, in particular given the extensive outreach performed with a wide range of stakeholders before the publication of ED-240.
    - The mixed views amongst respondents. In particular there were diverse views between regulators and practitioners. Generally, regulators were mostly in favor of keeping the requirements in ISA 240 (Revised) while, generally, practitioners believed that ISA 701 sufficiently covers matters related to fraud or believed that all requirements related to communicating KAMs should be in ISA 701.

Driving the Auditor to Communicate KAMs Related to Fraud.

69. The IAASB considered the concerns raised by respondents and agreed that the proposed requirement to include a negative statement (i.e., indicating that no KAMs related to fraud were identified) could have unintended consequences. In particular, such a statement might widen the expectations gap, create confusion due to inconsistency with how other KAMs are treated in ISA 701 and may lead to auditors to include boilerplate KAMs to avoid adding the statement. Accordingly, the IAASB decided to remove the requirement for a negative statement in the auditor's report when no KAMs related to fraud are identified.

70. The IAASB decided not to make any changes to the application material, reaffirming that its intent in ED-240 was to drive auditors to communicate KAMs related to fraud in the auditor's report. The IAASB was of the view that modifying the terminology to describe the probability of occurrence in these paragraphs will diminish the Board's objective and weaken the intended emphasis on transparency in the auditor's report.

Risk of Boilerplate KAMs

71. The IAASB discussed respondents' comments on the risk of boilerplate KAMs and noted that many of the respondents who had concerns are practitioners who have the ability to make KAMs related to fraud entity specific.

72. On the other hand, the IAASB recognized that a jurisdiction[16] which already requires auditors to communicate matters related to fraud in the auditor's report has seen boilerplate language in some auditors' reports. Therefore, the IAASB deleted a sentence (second sentence in paragraph A173 of ED-240) that may create confusion with respect to whether revenue recognition and management override of controls should always be KAMs related to fraud. Also, IAASB believed that removing paragraph 64 of ED-240 as proposed in paragraph 69 above will reduce some of the concerns raised by respondents.

Reference to Fraud in KAM Section Heading

73. The IAASB agreed that "Including Matters Related to Fraud" in the KAM section heading may be misleading when no KAMs related to fraud are communicated. Respondents' concerns may be exacerbated by the deletion of the statement that there are no KAMs related to fraud (see paragraph 69 above). Therefore, the IAASB decided to remove "Including Matters Related to Fraud" from the heading of the section.

Reference to Fraud in Sub-Headings

74. With respect to the subheadings, the IAASB was of the view that the requirement to use an appropriate subheading that clearly describes that the matter relates to fraud should not be changed as it is important to signal to users of the financial statements that a specific KAM relates to fraud. Also, given the changes to the header of the KAM section as described in paragraph 73 above, not signaling that the matter relates to fraud would make it harder for users of the financial statements to identify which KAMs relate to fraud and which not. Thus, it would also make the auditor's report less transparent, which contradicts one of the objectives of this project.

Section I – Linkages to Other ISAs

Background

75. As outlined in the project proposal, one of the objectives of the project was to enhance and clarify the linkages between ISA 240, ISA 250 (Revised), and other ISAs. In ED-240, the IAASB emphasized that the standard is intended to be applied in an integrated and complementary manner with other ISAs. To achieve this, the IAASB:

- Expanded the scope section to include explicit references to foundational ISAs that ED-240 either builds upon or elaborates.
- Embedded, where appropriate, references to foundational ISAs throughout the requirements and application material, using constructs such as "*In applying ISA*…" or "*In accordance with*...". This approach reinforces that ED-240 applies a "fraud lens" to foundational requirements and application material in other ISAs.
- Introduced a new section titled "*Relationship with Other ISAs*" (paragraph 15 of ED-240) to remind the auditor that other ISAs also include requirements and guidance that are applicable to the auditor's work on the identification and assessment of the ROMMs due to fraud and responses to address such risks.

[16] See Royal Netherlands Institute of Chartered Accountants' Report on Fraud in Auditors' Reports in 2022

- Revised paragraph 9 of extant ISA 240 (paragraph 14 of ED-240) to clarify that fraud constitutes an instance of NOCLAR and to make an explicit reference to ISA 250 (Revised), which deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements.

Summary of Comments Received on Exposure

76. Overall, respondents welcomed the improved linkages in ED-240. However, they also recommended further refinements to enhance the interaction between ED-240, ISA 250 (Revised) and ISA 315 (Revised 2019):

    - Regarding ISA 250 (Revised):
        - Respondents challenged the assertion that all instances of fraud constitute NOCLAR, noting that not all instances of fraud as defined by the standard necessarily breach laws or regulations.
        - Respondents requested a clearer articulation of how ED-240 and ISA 250 (Revised) are meant to interact when identified fraud or suspected fraud also meets the definition of NOCLAR.
    - Regarding ISA 315 (Revised 2019):
        - Respondents noted that the requirements in ED-240 duplicated some of the requirements in ISA 315 (Revised 2019), which may lead auditors to unnecessarily repeat risk assessment procedures.
        - Respondents noted that certain requirements (particularly paragraph 26 and 33 of ED-240) from other ISAs have been included in ED-240, without or with limited modification, resulting in a lack of clarity on how the fraud lens should be applied when performing the requirements.
        - Respondents noted that other requirements appear to simply have been reworded which may create confusion whether it implies a different requirement, or the same procedures may be performed when applying the requirement in ED-240 and the equivalent requirement in other ISAs. This lack of clarity may lead to inconsistent application in practice.

IAASB Decisions

Linkage to ISA 250 (Revised)

77. In response to feedback, the IAASB streamlined paragraph 14 of ED-240 (paragraph 14 of ISA 240 (Revised)) to avoid unnecessary repetition of concepts already addressed in ISA 250 (Revised). Specifically, references to concepts already included in paragraph 9 of ISA 250 (Revised) were reduced to enhance clarity.

78. The IAASB acknowledged that the definition of fraud in paragraph 18(a) of ISA 240 (Revised) leaves open the possibility that a fraudulent act may confer an unjust advantage without necessarily violating a law. Fraudulent acts that are unjust but do not contravene criminal laws may still give rise to remedies through civil proceedings. The IAASB also acknowledged that third-party fraud, as

described in paragraph 18(a), does not meet the definition of non-compliance in paragraph 12 of ISA 250 (Revised) unless the third party is acting under the direction of the entity.

79. Nevertheless, the IAASB agreed that fraud does ordinarily constitute an instance of NOCLAR. Accordingly, the word "ordinarily" was introduced in paragraph 14 of ISA 240 (Revised) to clarify this point.

80. To further clarify the interaction between the two standards, the IAASB reaffirmed that when fraud or suspected fraud meets the definition of NOCLAR, the auditor should apply the relevant requirements of both ISA 240 (Revised) and ISA 250 (Revised). The determination of which requirements apply will depend on the auditor's judgment and the facts and circumstances. For example:

- Not all requirements relating to fraud or suspected fraud in ISA 240 (Revised) may apply if the matter is determined to be clearly inconsequential.
- Similarly, the application of the requirements in ISA 250 (Revised) will vary based on the auditor's evaluation of the particular circumstances relevant to the identified or suspected NOCLAR.

81. The IAASB also reaffirmed that the auditor is not required to perform similar procedures under both standards when those procedures achieve the same purpose. To assist auditors in avoiding unnecessary duplication of work, the IAASB introduced new application material in paragraph A16 of ISA 240 (Revised), including an illustrative example, to clarify that fulfilling certain requirements in ISA 240 (Revised) may also satisfy the applicable requirements in ISA 250 (Revised).

Linkage to ISA 315 (Revised 2019)

82. The IAASB acknowledged respondents' concerns regarding the clarity of how certain revisions to the risk identification and assessment requirements in ED-240 demonstrated the application of a fraud lens to the foundational requirements in ISA 315 (Revised 2019). In its deliberation, the IAASB considered the intended relationship between ISA 240 and other ISAs, as described in the memorandum accompanying ED-240 and the IAASB's non-authoritative guidance, *The Fraud Lens – Interactions Between ISA 240 and Other ISAs*. In response, the IAASB revised paragraph 1 of ISA 240 (Revised) to clarify that the requirements in ISA 240 (Revised) are intended to be applied in conjunction with other relevant ISAs. The IAASB was of the view that the risk assessment procedures included in ISA 240 (Revised) do not establish a separate risk assessment process.

83. The IAASB also performed a detailed comparison of the requirements in ED-240 with the foundational requirements in ISA 315 (Revised 2019) and agreed that, in some instances, the requirements in ED-240 repeated the foundational standard with little or no modification, which could create uncertainty about how the fraud lens should be applied. To address this, the IAASB streamlined these requirements and aligned the wording to promote consistent application.

Section J – Other Matters

Responses to Assessed ROMMs due to Fraud

84. Respondents to ED-240 generally supported the IAASB's enhancements relating to responding to the assessed ROMMs due to fraud. However, respondents encouraged the IAASB to further address the following areas:

- *Unpredictability in the selection of audit procedures*: Respondents questioned the purpose of the IAASB's choice to incorporate the requirement regarding unpredictability under its own separate subheading in ED-240. Respondents encouraged the IAASB to clarify whether the change in scope was intentional and, if so, whether elements of unpredictability need to be incorporated in response to every ROMM due to fraud.
- *Journal entries*: Respondents noted a discrepancy between the requirement to test the completeness of journal entries throughout the period (paragraph 50(b)), and the requirement to select journal entries at the end of a reporting period (paragraph 50(c)). Respondents also asked the IAASB to clarify the concept of population in paragraph 50(b) and how that requirement is meant to be applied in the context of group audits.

Unpredictability in the Selection of Audit Procedures

85. The IAASB noted that the change to incorporate an element of unpredictability in the auditor's response to address assessed ROMMs due to fraud at the financial statement level and assertion level was intentional. The IAASB reaffirmed its view that the requirement is appropriately located within ISA 240 (Revised), as incorporating an element of unpredictability is relevant both when determining overall responses and when designing and performing audit procedures responsive to assessed ROMMs due to fraud at the assertion level.

86. The IAASB enhanced the application material to clarify that the extent to which the auditor incorporates an element of unpredictability in the selection of the nature, timing, and extent of audit procedures is a matter of professional judgment.

Journal Entries

87. The IAASB discussed the intent of paragraph 50(b) of ED-240 in the context of a group audit, particularly regarding what constitutes the population referred to in that paragraph. The IAASB also considered incremental feedback received after the exposure period from practitioners about how paragraph 50(b) would be applied in practice for group audits. Based on insights from that feedback and further deliberations, the IAASB concluded that auditors should obtain audit evidence about the completeness of the population for components for which further audit procedures are performed and therefore did not change the intent of the requirement (paragraph 50(b) in ED-240 which is paragraph 49(b) of ISA 240 (Revised)). However, the IAASB did remove the word "all" in paragraph 49(b) of ISA 240 (Revised) to address any confusion that in a group audit the requirement relates to all components (i.e., it only relates to components for which further audit procedures are performed).

88. Regarding the perceived inconsistency between paragraph 50(b), 50(c) and 50(d) of ED-240, the IAASB was of the view that the auditor must obtain audit evidence about the completeness of the population for the entire period to support the appropriateness of the population for which to perform journal entry testing, consistent with the approach set out in ED-240.

Written Representations

89. The IAASB revised the required written representations from management and, where appropriate, TCWG, relating to instances of fraud or suspected fraud known to the entity. Specifically, the IAASB reduced the threshold relating to fraud or suspected fraud involving "others" from material matters to any matters that could have an effect on the financial statements. The IAASB recognized that fraud ordinarily constitutes an instance of NOCLAR and that this change would enhance the consistency

between the requirements related to written representations in ISA 240 (Revised) and ISA 250 (Revised). Specifically, the revision is consistent with the requirement in paragraph 17 of ISA 250 (Revised), which requires the auditor to obtain written representations confirming that all known instances of NOCLAR, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor.

90. Furthermore, the IAASB considered it appropriate for management to provide a written representation confirming that all known instances of fraud or suspected fraud involving others that could affect the financial statements have been disclosed to the auditor. This, in turn, supports the auditor's compliance with the requirement in paragraph 65 of ISA 240 (Revised) to communicate all instances of fraud or suspected fraud to TCWG except for matters the auditor determines are clearly inconsequential.

Communications with TCWG

91. Respondents identified an inconsistency between the communication requirements to TCWG in ED-240 and ISA 250 (Revised) relating to fraud or suspected fraud and instances of identified or suspected NOCLAR. Specifically, paragraph 67 of ED-240 required the auditor to communicate fraud or suspected fraud involving "others" to TCWG only when such matters resulted in material misstatements, whereas paragraph 23 of ISA 250 (Revised) requires the auditor to communicate instances of NOCLAR that are not clearly inconsequential. The IAASB acknowledged this concern and revised the threshold for reporting fraud or suspected fraud involving "others" to align with ISA 250 (Revised) by requiring communication of matters that are not clearly inconsequential (see also paragraph 58 above).

Impacts of Technology Used by Entities and Auditors

92. Respondents supported the introduction of application material in ED-240 which deals with the impact of technology used by entities and auditors. Respondents also noted the following:

    - The guidance in ED-240 doesn't sufficiently address new fraud risks introduced by the increasing use by entities of emerging technologies, including generative artificial intelligence, in their IT environment relevant to financial reporting systems and related controls.
    - Some of the technology-related application material in ED-240 is abstract, lacking practical guidance and sometimes implies that the use of technology is necessary in cases where it may not be.

93. In response to comments, the IAASB reviewed all references to either technology used by entities and auditors (i.e., automated tools and techniques) and concluded that the objectives described in the project proposal were achieved. References to technology were deliberately kept broad to mitigate the risk that they could become dated (i.e., specific technologies were not referred to in ED-240). Furthermore, the IAASB is of the view that the standard is sufficiently clear that examples in the application material are in fact examples and not requirements.

Section K – Effective Date

Background

94. In developing ED-240, the IAASB proposed an effective date for audits of financial reporting periods beginning approximately 18 months after approval of the final standard by the IAASB, with earlier application permitted or encouraged. The Explanatory Memorandum accompanying ED-240 also

recognized the need for the IAASB to remain mindful about coordinating the possible effective date of ISA 240 (Revised) with the effective dates of other IAASB projects that are currently considering changes to the auditor's report (i.e., the Going Concern and Track 2 of the Listed Entity and Public Interest Entity (PIE) projects).

Summary of Comments Received on Exposure

95. Respondents generally supported the proposed effective date and noted that the proposed timeframe of approximately 18 months after the IAASB's approval of the final standard was reasonable for their jurisdiction to implement the standard, including where translations are necessary, as well as for development of implementation guidance, update of methodologies, tools, and training materials. Respondents who favored a longer implementation period (e.g., 24 months between the final date of approval of the standard and its effectiveness) highlighted the significant time needed for translating the final pronouncement in their jurisdictions, for national adoption processes to occur, and for firms, particularly small- and medium-sized practitioners, to update methodologies and related tools.

96. There was strong support from all respondents to align the effective date for ISA 240 (Revised) with the effective date for Going Concern and Track 2 of the Listed Entity and PIE projects, to avoid changes to the auditor's report in consecutive periods.

IAASB Decisions

97. Taking into account respondents' comments, the IAASB decided that ISA 240 (Revised) should be effective for audits of financial statements for periods beginning on or after December 15, 2026. This effective date aligns with the effective date of ISA 570 (Revised 2024)[17] and the proposed effective date for the Listed Entity and PIE – Track 2 project. The IAASB believes that this timeframe is sufficient to allow jurisdictions time for translation of the standard, national adoption processes to occur, and for practitioners to update methodologies, tools, and training materials.

Early Adoption

98. Because of the potential confusion for users if auditors' reports for the same or similar periods within the marketplace lack consistency, the IAASB believes that if early adoption is contemplated the collective changes arising from the Fraud, Going Concern and Listed Entity and PIE projects should preferably be early adopted as a package, rather than on a piecemeal basis.

[17] ISA 570 (Revised 2024), *Going Concern*

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

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25)[18]	Key Changes in Proposed ISA 240 (Revised)		Qualitative Standard-Setting Characteristics Considered[19]
	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: • 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. • Considering whether the auditor's responsibilities should be placed prior to the description of inherent limitations of an audit.	Paras. 1–11, A1–A12	• 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.	• *Clarity and conciseness* • *Comprehensiveness* • *Enforceability*

[18] 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).

[19] 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.

A.2: Application Material – Definition of Fraud 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)).	Paras. A19–A23	• Added application material that: ○ 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).	• *Clarity and conciseness* • *Coherence*
A.3: Requirements and Application Material – Specialized Skills Consider enhancing requirements and application material in ISA 240 on the need for specialized skills (including forensic skills): • 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: ○ When performing risk identification and assessment. In doing so, consider how this links to the revised requirements in ISA 220 (Revised)[20] for adequate resources for the engagement. ○ When there is identified or suspected fraud. • Consider how scalability of a new requirement can be achieved by taking into the account the nature	Paras. 23–24, A38–A43	• Added requirements that expand on relevant requirements in ISA 220 (Revised), for the engagement partner to: ○ Determine that members of engagement team collectively have the appropriate competence and capabilities, including *appropriate specialized skills or knowledge* to perform risk assessment procedures, identify and assess the ROMMs 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 fraud-related matters identified during the course of the audit engagement. • Added application material that:	• *Scalability* • *Relevance* • *Clarity and conciseness*

[20] ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

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.		○ 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.	
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	Paras. 26–41, A24–A26, A49–A125, Appendix 1	• 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	• *Scalability* • *Relevance* • *Comprehensiveness* • *Implementability*

315 (Revised 2019) to make fraud risk identification and assessment more robust, including: • 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 accordance with ISA 315 (Revised 2019), with an emphasis on, for example: ○ 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		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)[22] 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: ○ Entity and its environment, and the applicable financial reporting framework; and ○ 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.	• *Coherence*

[22] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

(Revised)[21] or the auditor's knowledge obtained throughout the audit. • 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. • Emphasizing in ISA 240 how fraud risk factors influence the identified ROMMs 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.		○ 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 ROMMs due to fraud at the financial statement and assertion levels *take into account fraud risk factors*. • 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: ○ Explains more precisely what the expanded requirements relating to risk identification and assessment in ISA 240 (Revised) are intended to cover, as well as in some cases "why" a procedure or action is needed. ○ 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.	

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

		• Updated the fraud risk factors in Appendix 1 to ISA 240 (Revised).	
B.5: Requirements and Application Material – Engagement Team Discussion Enhance requirements and application material in ISA 240 to make the engagement team discussion on fraud considerations more robust, including: • 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 fraud specialists) to attend engagement team discussion(s).	Paras. 29, A43, A53–A59	• 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: o 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 ROMMs due to fraud in revenue recognition and how management may be able to override controls; and o 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 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. • Added application material explaining that the involvement and contributions of individuals with specialized skills or knowledge may elevate the quality of the engagement team	• *Scalability* • *Relevance* • *Comprehensiveness* • *Implementability* • *Coherence*

		discussion.	
B.7: Requirements and Application Material – Responses to the Assessed Risks of Material Misstatement Enhance the requirements and application material in ISA 240 to strengthen the auditor's responses to assessed ROMMs due to fraud, as necessary in light of the proposed actions addressing fraud risk identification and assessment and other fraud-related procedures, including: • 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 ROMMs due to fraud. • Enhancing application material in ISA 240 to encourage emphasis on management bias when considering the appropriateness of accounting estimates from a fraud perspective as well as improving the link to the procedures required in ISA 540 (Revised).	Paras.42–53, A126–A155	• Added a requirement for the auditor to design and perform audit procedures in response to the assessed ROMMs 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.	• *Relevance* • *Comprehensiveness* • *Implementability* • *Enforceability* • *Coherence*
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.63, A193–A194	• 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.	• *Clarity and conciseness*

B.9: Application Material – Technology Considerations Enhance application material in ISA 240 to reflect and describe the use of technology to: • 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 expert(s) as needed.	Paras. A5, A9, A36, A40–A41, A56, A62, A66, A101, A103, A128, A129, A147, A151, A155, Appendix 2 and Appendix 4	Added application material to reflect and describe the use of technology, including: • 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 ROMMs due to fraud. • Guidance highlighting that expertise in Information Technology systems may be considered when determining whether the engagement team has the appropriate competence and capabilities. • 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	• *Scalability* • *Relevance* • *Clarity and conciseness* • *Implementability*

		the assessed ROMMs 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.	
B.11: Introductory Paragraphs and Application Material in ISA 240 – Relationship Between ISA 240 and ISA 250 (Revised), and Other ISAs Enhance the introductory paragraphs and consider application material in ISA 240 to clarify the relationship between ISA 240 and ISA 250 (Revised), including: • Highlighting the interrelationship between fraud and NOCLAR (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.	Paras. 14, A15–A17, Appendix 5	• 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 ordinarily constitutes an instance of NOCLAR, 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).	• *Clarity and conciseness* • *Coherence*
B.14: Requirements and Application Material – Journal Entries Clarify the requirements and application material in ISA	Paras. 35–36, 48–49, A99–A107, A136–A147,	• Added requirements and related application material, for the auditor to obtain an understanding of: ○ How journal entries and other	• *Relevance* • *Comprehensiveness* • *Implementability*

240 on the approach to testing journal entries, including: • Considering enhancing requirements in ISA 240 to: ○ Clarify that the auditor's risk 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. ○ 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: ○ 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 500 (e.g., obtaining audit evidence about the completeness of the information used to test journal entries).	Appendix 4	adjustments are initiated, processed, recorded, and corrected, as necessary. ○ Controls over journal entries and other adjustments, designed to prevent or detect fraud. These requirements build on the relevant requirements in ISA 315 (Revised 2019). • 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: ○ Clarifies why the testing of journal entries and other adjustments is performed. ○ Explains that the auditor's design and performance of audit procedures over journal entries and other adjustments may be informed by: ▪ The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.	• *Enforceability* • *Coherence*

		▪ 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 techniques may be used by the auditor to test journal entries and other adjustments. • Added an appendix with additional considerations that may be used by the auditor when selecting journal entries and other adjustments for testing.	
B.15: Requirements and Application Material – Presumption of Fraud Risk in Revenue Recognition 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: • 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: ○ Highlight other account balances that may be particularly susceptible to material misstatement due to fraud (such as goodwill). ○ Clarify when it is inappropriate to rebut the presumption of risks of fraud in revenue	Paras. 41, A114, A119–A125	• 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 ROMMs 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. Enhanced or added application material that: • Highlights relevant assertions and other related classes of transactions, account balances and disclosures that may be susceptible to ROMMs due to fraud. • Provides examples of circumstances where there may be greater ROMMs due to fraud in	• *Scalability* • *Relevance* • *Clarity and conciseness*

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.		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 ROMMs due to fraud in revenue recognition. • Clarifies the limited circumstances when it may be appropriate to rebut the presumption that there are ROMMs 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.	
B.16: Application Material – Analytical Procedures Consider enhancing and clarifying the application material in ISA 240 to emphasize the link to ISA 315 (Revised 2019) and ISA 520[23] 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.	Paras. 30, 53, A60, A154–A155	• 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: ○ 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	• *Clarity and conciseness*

[23] ISA 520, *Analytical Procedures*

		performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.	
B.17: Requirements and Application Material – Fraud Is Identified or Suspected Designate a separate section in ISA 240 for required audit procedures when fraud is identified or suspected, including: • Developing new requirements, relocating existing requirements, or elevating existing application material to requirements. • Enhancing application material as needed.	Paras. 55–58, A7–A11, A28, A156–A172	• Added a separate section in ISA 240 (Revised) for audit procedures when fraud is identified or suspected. • Added requirements, and related application material, that: ○ 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: ▪ 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	• *Scalability* • *Relevance* • *Comprehensiveness* • *Clarity and conciseness* • *Implementability* • *Enforceability*

		misstatement due to fraud, including: ▪ Determining whether the identified misstatement is material; ▪ 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	Paras. 43, A126–A128	• 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	• *Scalability* • *Relevance* • *Clarity and conciseness*

providing examples of the types of procedures that can be used by the auditor, and how such procedures can be scalable.		to assessed ROMMs due to fraud at the assertion level and financial statement level. • Enhanced the application material by adding examples of unpredictable audit procedures, including incorporating unpredictability through the use of automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation.	• *Implementability*
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	• 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.	• *Comprehensiveness* • *Clarity and conciseness*
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 ROMMs due to fraud.	Para. 29(a)(ii)(c), A22–A23, A57, A84	• 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: ○ 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	• *Comprehensiveness* • *Clarity and conciseness*

		assessment process may include an assessment of how the 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. 68, A206	• Added a requirement for the auditor to document: ○ 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 230[24] dealing with the documentation of inconsistencies with the auditor's final conclusion regarding a significant matter.	• *Scalability* • *Clarity and conciseness* • *Implementability* • *Enforceability*
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: • Modernizing ISA 240 for current practice and developments in technology, including technology used in practice for external confirmations.	Paras. A130–A134	• Added application material that: ○ 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.[25] The application material includes	• *Scalability* • *Relevance* • *Clarity and conciseness*

[24] ISA 230, *Audit Documentation*

[25] ISA 505, *External Confirmations*

• 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.		guidance and examples that: ▪ Are modernized for current practice and developments in technology; and ▪ 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			
C.25: Requirements and Application Material – Professional Skepticism Enhance requirements and application material in ISA 240 to reinforce more robust exercise of professional skepticism when performing procedures related to fraud, including: • 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. • Explaining the 'ramp up' of procedures when fraud is identified or suspected in the application material.	Paras. 12–13, 19–22, 42, A13–A14, A27–A37	• 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 other things, approach each audit with a "fresh pair of eyes." • Removed the reference to "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as	• *Scalability* • *Comprehensiveness* • *Clarity and conciseness* • *Implementability* • *Coherence*

		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 ROMMs 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: ○ 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 disclosed to the auditor. ○ 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 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			
• Enhance requirements and application material in ISA 240 to strengthen required communications with TCWG, including: o Enhancing the requirements in ISA 240 for specific discussions with TCWG about the entity's ROMMs due to fraud and to encourage more appropriate two-way communication. Enhancements could include, for example, explicit discussions about: ▪ 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)). o Enhancing the requirements in ISA 240 for the auditor to assess whether the	Paras. 21, 25, 32(c) –, 33(b), 34(b), 49(a), 55, 59(c)(i), 64-66, A33, A44–A487, A80–A82, A92–A95, A97–A98, A158–A162, A195–A200	• 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 responses to inquiries of management or TCWG. • 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	• *Scalability* • *Relevance* • *Implementability* • *Coherence*

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 ability to objectively evaluate the actions of management.		matter(s) with an appropriate level of management and, when appropriate in the circumstances, TCWG. • Added application material that: ○ Emphasizes that robust two-way communication between management or TCWG and the auditor assists in identifying and assessing the ROMMs 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.	
• Explore[26] 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:	Paras. 60–62, A177–A192	• 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	• *Scalability* • *Relevance* • *Implementability* • *Enforceability*

[26] The term "explore" is used here because this is an area where significant mixed views were expressed by stakeholders and during IAASB deliberations on the need for enhanced transparency in the auditor's report and will require further consideration by the Fraud Task Force and the IAASB before possible actions can be proposed.

○ 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: ▪ 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 made by others in different jurisdictions. ○ Considering revisions to clarify the interaction of KAMs and fraud-related matters.		that expand on ISA 701 and strengthen the requirements for the auditor to report KAMs related to fraud, including requirements for the auditor to: ○ 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: ○ Matters related to fraud are often matters that require significant auditor attention; and ○ 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.	• *Coherence*

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