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Analysis of the Proposed International Standard on Auditing 240 (revised) of december 2023

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ANALYSIS OF THE DRAFT INTERNATIONAL STANDARD ON AUDITING 240 (IAS 240) OF DECEMBER 2023

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This Study meets the specific relevance criteria for the disclosure of matters affecting the application of accounting and auditing standards and the exercise of the powers assigned to the ICAC, as well as the timeliness of its objectives, both in terms of their nature and scope.

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List of sections

Contents

1 Objectives

The aim of this report is twofold. Firstly, to compare the Proposed ISA 240 (Revised) with the current standard. Secondly, to identify the aspects of the Exposure Draft that have generated the most controversy among stakeholders, and which could potentially lead to changes in the final version of the revised ISA.

The report is structured as follows. Section Two contextualises and describes the revision process of ISA 240 in which the *International Auditing and Assurance Standards Board* (IAASB) has been engaged since 2020. Section Three summarises and describes the key changes proposed in the Exposure Draft of Proposed ISA 240 (Revised), following the structure of the *Explanatory Memorandum* accompanying the Exposure Draft to facilitate understanding of the reasoning behind the changes[1]. Section Four summarises other changes included in the Proposed ISA 240 (Revised). Section Five presents a descriptive analysis of the origin and content of the comment letters received by the IAASB from stakeholders in response to the Exposure Draft of Proposed ISA 240 (Revised), the consultation period for which closed on 5 June 2024. The purpose of the comment letter analysis is to identify the most controversial issues on which the standard-setter should reflect before issuing the final revised ISA, scheduled for March 2025.

1 A detailed analysis, comparing the content of the Proposed ISA 240 (Revised) with that of the current version section by section, is included in the Annex.

2 Background and timeline of the revision of ISA 240

The International Standard on Auditing 240 (ISA 240), on the auditor's responsibilities relating to fraud in an audit of financial statements, was initially issued by the IAPC[2] in March 2001, and has since been revised several times. The current version was published by the IAASB in 2009 and became effective for financial periods beginning on or after 15 December 2009. In Spain, this standard was adapted through a Resolution of the Accounting and Auditing Institute (ICAC) dated 15 October 2013 (ISA-ES 240). This is the first dedicated standard concerning the auditor's responsibilities regarding fraud.

Since the implementation of this standard, various accounting and financial fraud cases have occurred worldwide, casting doubt on the work of auditors. Cases such as Wirecard in Germany, Carillion in the United Kingdom and Silicon Valley Bank in the United States have once again brought auditors into the spotlight with the question "Where were the auditors?"[3, 4], highlighting the lack of understanding of the auditor's role in the face of financial scandals. This phenomenon is known as the expectation gap, the difference between what users expect from an audit and what it actually is, or should be[5].

In this context, and given the public interest nature of auditing, in 2020 the IAASB recognised the need to begin a process of reflection on the auditor's role in relation to fraud and on reducing the expectation gap. This process followed the steps of the timeline shown in **Figure 1.**

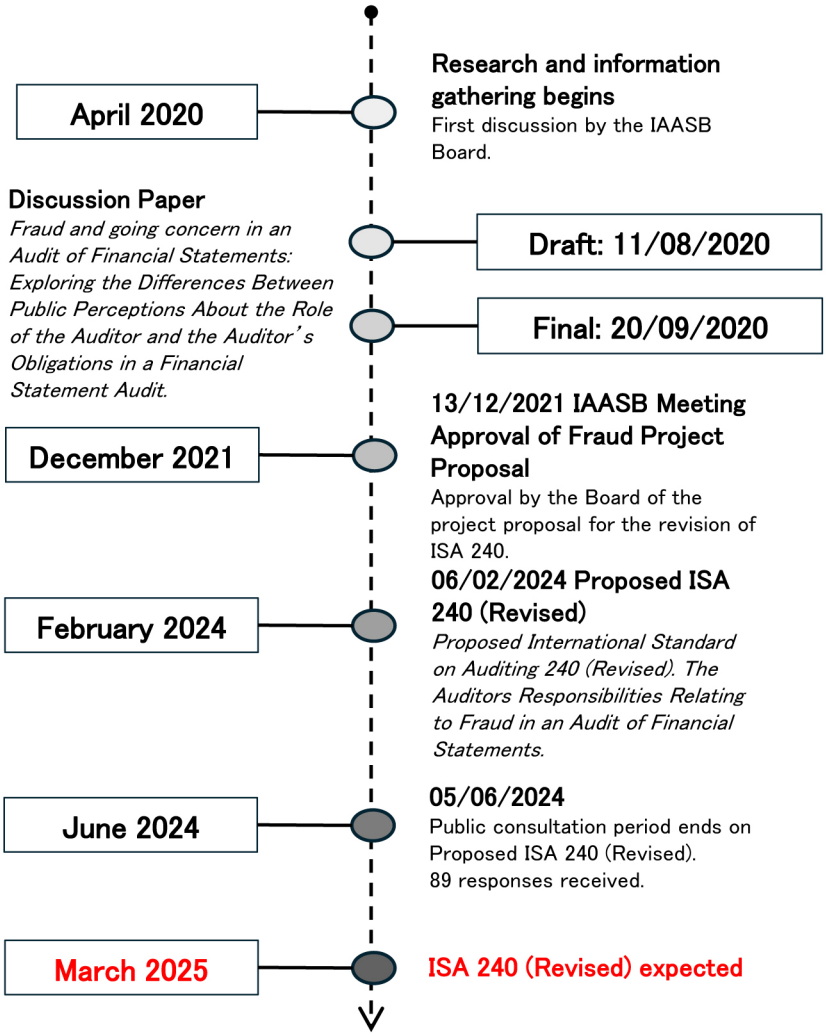
2 In March 1978 the *International Auditing Practices Committee* (IAPC) was established at the initiative of IFAC. In 1991, the guidance issued by the IAPC was transformed into the current International Standards on Auditing (ISAs), and in 2001, a comprehensive review of the IAPC's work began, leading to its transformation into today's IAASB.

3 "Burned Investors Ask 'Where Were the Auditors?' A Court Says 'Who Cares?" (Wall Street Journal, 21 December 2023).

4 "Why don't auditors find fraud?" (The Business Times, 8 May 2024).

5 "Narrowing the gap" (IAASB, 20 September 2020).

//// **FIGURE 1** Timeline of the revision of ISA 240



↑ Source: Prepared by the authors based on information from the IAASB website.

The information gathering period started in early 2020. The IAASB organised several meetings and roundtables with stakeholders to gather their views on the auditor's role in relation to going concern and fraud, both closely linked to the expectation gap. As a result of this research, in September 2020 the IAASB published a Discussion Paper (DP) titled: 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*. This paper was a first step towards better understanding how auditing standards might help narrow the expectation gap. While recognising that it cannot unilaterally close this gap, the standard-setter acknowledged its responsibility to help narrow it in order to support the better functioning of the financial reporting ecosystem.

The DP referred to issues such as:

- The impact of technology on fraud.
- The auditor's use of forensic specialists.
- Fraud in Less Complex Entities.

Following the publication of the DP, the IAASB opened a public consultation period to gather stakeholders' views on the following issues:

- Expectation gap and how to narrow it.
- Need for further regulation and/or auditor requirements.
- Need for more professional scepticism (*suspicious mindset*).
- Need for more transparency.

The public consultation included in the DP closed on 1 February 2021, and a total of 94 comment letters were received. In light of these responses, among other actions, the IAASB approved a project proposal in December 2021 to revise ISA 240, with the aim of clarifying the auditor's responsibilities and strengthening the procedures used to detect and report fraud in the financial statements. Thus began the revision of ISA 240, with the following objectives:

- 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 due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary guidance where appropriate.
- Reinforce the importance, throughout the audit, of the appropriate exercise of professional scepticism in fraud-related audit procedures.
- 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.

Just over two years later, on 6 February 2024, the IAASB published the Exposure Draft of Proposed ISA 240 (Revised)[6], opening a public consultation period that closed on 5 June of the same year. The final revised standard is expected to be issued in March 2025.

This report's analysis of Proposed ISA 240 (Revised) is based on the document issued by the IAASB, which includes: an Explanatory Memorandum (hereinafter EM); the Exposure Draft of the Proposed ISA 240 (Revised); and proposed amendments to other ISAs arising from the revision of ISA 240[7].

6 The approved document is available in English and can be downloaded from the IAASB website (*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*).

7 Given the interaction of ISA 240 with other standards, the regulator anticipated the need for changes to other ISAs. In fact, the content of the Proposed ISA 240 (Revised) has significant implications for matters such as the content of the auditor's report and the auditor's responsibilities.

3 Key developments in Proposed ISA 240 (Revised)

The Proposed ISA 240 (Revised) significantly expands and clarifies the content of the standard. This is illustrated in **Table 1**, which provides a comparison of the overall content of the current ISA 240 and the proposed revision published in December 2023. The proposed revision has slightly restructured the standard, reorganising its content and introducing new sections, such as a "Key Concepts" section in the introductory material. Most notably, it expands the standard by replacing or modifying several paragraphs and incorporating new ones. The 47 paragraphs in the current standard increase to 70 in the proposed revised version. In addition, the Exposure Draft includes a substantial increase in application and other explanatory material, growing from 67 to 193 paragraphs. It also adds two new appendices: Appendix 4, which outlines additional considerations the auditor should take into account when selecting journal entries and other adjustments for testing; and Appendix 5, which lists other ISAs addressing specific topics that reference fraud or suspected fraud.

As the IAASB explains in the EM, the main objective of the proposed revised ISA 240 is to enhance and clarify the auditor's responsibilities for detecting fraud during the audit of financial statements. The revision seeks to strengthen audit practice by introducing more robust and detailed requirements, highlighting the importance of professional scepticism, and emphasising the need for ongoing, effective communication with management and TCWG. The proposal also aims to improve the identification and assessment of fraud risks, provide clearer guidance on how the auditor should respond to fraud or suspected fraud, and increase transparency in the auditor's report with respect to responsibilities and procedures related to fraud. Ultimately, the intention is to enhance the quality and consistency of audits globally, thereby strengthening public confidence in the audit profession.

//// **TABLE 1** Comparison of the content of ISA 240 and the Proposed ISA 240 (Revised)

Content of the current ISA 240			Content of Proposed ISA 240 (Revised)		
Section	**Para.**	**App. & Expl.***	**Section**	**Para.**	**App. & Expl.***
Introduction			**Introduction**		
Scope of this ISA	1		Scope of this ISA	1	
Characteristics of fraud	2-3	A1-A6			
Responsibility for the prevention and detection of fraud	4-8				
			Responsibilities of the auditor, management and those charged with governance	2-3	A1
			Key concepts in this ISA	4-14	A2-A16
			Relationship with other ISAs	15	A17
Effective date	9		Effective date	16	
Objectives	10		**Objectives**	17	
Definitions	11		**Definitions**	18	A18-A23
Requirements			**Requirements**		
Professional scepticism	12-14	A7-A9	Professional scepticism	19-21	A24-A32
Engagement team discussion	15	A10-A11			
			Engagement resources	22	A33-A36
			Engagement performance	23-24	A37-A38
			Ongoing nature of communications with management and those charged with governance	25	A39-A43
Risk assessment procedures and related activities	16-24	A12-A27	Risk assessment procedures and related activities	26-32	A44-A58
			Obtaining understanding of the entity, its environment, applicable framework and system of internal control	33-39	A59-A103
Identifying and assessing the risks of material misstatement due to fraud	25-27	A28-A32	Identifying and assessing the risks of material misstatement due to fraud	40-42	A104-A113
Response to the assessed risks of material misstatement due to fraud	28-33	A33-A48	Response to the assessed risks of material misstatement due to fraud	43-54	A114-A143
			Fraud or suspected fraud	55-59	A144-A157
Evaluation of audit evidence	34-37	A49-A53			
Auditor unable to continue the audit engagement	38	A54-A57	Auditor unable to continue the audit engagement	60	A158-A161
			Implications for the auditor's report	61-64	A162-A179
Written representations	39	A58-A59	Written representations	65	A180-A181
Communications with management and those charged with governance	40-42	A60-A64	Communications with management and those charged with governance	66-68	A182-A187
Reporting to an appropriate authority outside the entity	43	A65-A67	Reporting to an appropriate authority outside the entity	69	A188-A192
Documentation	44-47		Documentation	70	A193
Appendices			**Appendices**		
Appendix 1: Evaluation of fraud risk factors			Appendix 1: Evaluation of fraud risk factors		
Appendix 2: Examples of possible audit procedures to address the assessed risks of material misstatement due to fraud			Appendix 2: Examples of possible audit procedures to address the assessed risks of material misstatement due to fraud		
Appendix 3: Examples of circumstances that may be indicative of fraud			Appendix 3: Examples of circumstances that may be indicative of fraud		
			Appendix 4: Additional considerations that may inform the auditor when selecting journal entries and other adjustments for testing		
			Appendix 5: Other ISAs addressing specific topics that reference fraud or suspected fraud		

* Section on Application and Other Explanatory Material.

↑ Source: Prepared by authors.

The IAASB identifies the following seven key topics to categorise the proposed changes, which it expects will promote greater consistency in practice and drive changes in auditor behaviour:

1. Clarification of the responsibilities of the auditor (**Table 2**):
   - The description of the auditor's responsibilities has been decoupled from the inherent limitations of the audit to avoid confusion.

- It is emphasised that the auditor's responsibilities relating to fraud are not diminished by the inherent limitations of the audit.

2. Reinforcement of professional scepticism (**Table 3**):
   - The importance of professional scepticism is highlighted in the introductory paragraphs and the body of the standard.
   - References to the auditor's preconceptions about management's honesty have been removed to avoid undermining professional scepticism.
   - The need to further investigate when there are doubts about the authenticity of records and documents is clarified.
3. Ongoing nature of communications (**Table 4**):
   - A requirement has been introduced for the engagement team to maintain ongoing communication with management and TCWG on matters relating to fraud.
   - The required inquiries about deficiencies in internal control and their remediation have been reinforced.
4. Risk identification and assessment (**Table 5**):
   - Analytical procedures at the planning and completion stages of the audit have been strengthened.
   - The requirement to identify and assess the risks of material misstatement due to fraud has been reinforced, taking into account fraud risk factors.
5. Fraud or suspected fraud (**Table 6**):
   - A dedicated section has been introduced detailing the requirements when fraud or suspected fraud is identified.
   - A new explicit requirement has been added for the auditor to obtain an understanding of the fraud or suspected fraud.
6. Transparency in the auditor's report (**Table 7**):
   - Enhancements have been made to ISA 700 (Revised) to include the auditor's responsibilities relating to fraud and the communication of those responsibilities to management and TCWG.
   - A filtering mechanism has been introduced to determine which fraud-related matters should be communicated as Key Audit Matters (hereinafter, KAMs).
7. Documentation (**Table 8**):
   - Clarification has been provided on what should be documented in relation to fraud, including the understanding of the entity, the identified and assessed risks, and the results of the audit procedures performed.

Tables 2 to 8 provide a summary of the areas addressed in the current version of ISA 240 in relation to each of the seven most significant proposed changes, along with the key amendments introduced in the draft revised ISA 240 to address them. The Annex to this report offers a detailed paragraph-by-paragraph comparison between the extant ISA 240 and the proposed revised standard.

//// TABLE 2 **Key changes related to the auditor's responsibilities in the detection of fraud.**

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
Combines the inherent limitations of an audit related to detecting fraud with the description of the auditor's responsibilities for the detection of fraud, which may lead to misinterpretation of those responsibilities.	5-7	▪ Separates the concepts: the auditor's responsibilities are described first (Para. 2) and the inherent limitations are addressed separately (paras. 9-11). ▪ Explicitly states that the inherent limitations of an audit do not relieve the auditor of their responsibilities (Para. 9).	2 / 9-11
Need to clarify the auditor's responsibilities for the detection of fraud in an audit of financial statements.		ISA 240 should focus on the auditor's responsibility and therefore describes that first, followed by the responsibilities of management and those charged with governance, while acknowledging that the primary responsibility for preventing and detecting fraud lies with the latter.	14-16
Need to clarify the auditor's responsibilities relating to non-material fraud and suspected non-material fraud in an audit of financial statements.		▪ Introduces a key concept explaining how the auditor determines whether an identified misstatement due to fraud or suspected fraud is material to the financial statements (Para. 8). ▪ Adds explanatory guidance: even if a misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on who instigated the fraud and why it occurred (Para. A11).	8 / A11

↑ Source: Prepared by authors.

//// **TABLE 3** Key changes related to professional scepticism

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
Need to reinforce the exercise of professional scepticism. Importance of remaining alert to indicators of possible fraud and maintaining professional scepticism throughout the audit.	13	The revised standard highlights the importance of professional scepticism in the introductory paragraphs[8] and includes new and improved requirements and application material in the body of the standard.	12-13, 19
Reference to the auditor's preconceptions about the honesty and integrity of management and those charged with governance may undermine professional scepticism.	13	▪ The requirement referring to the auditor's preconceptions has been removed to avoid undermining the exercise of professional scepticism (Para. 19). ▪ New application material (referencing ISA 220 (Revised)) suggests possible actions to mitigate pressures on the engagement team that may lead to concealing fraud and compromise professional scepticism (Para. A25).	19, A25
Authenticity of records and documents: The introductory phrase allowing records and documents to be accepted as genuine unless there is reason to believe otherwise may hinder appropriate response to fraud indicators.	14	▪ Clarification regarding authenticity: The sentence allowing records and documents to be accepted as genuine has been removed (formerly in Para. 24 of ISA 200). ▪ Application material added clarifying the need to investigate further when there are doubts about authenticity, especially when there are indicators of possible fraud; examples of such conditions are provided.	20, A26-A27
Need to emphasise the importance of remaining alert to indications of fraud or suspected fraud throughout the audit.		▪ A new requirement is introduced emphasising the importance of remaining alert throughout the audit to information indicating fraud or suspected fraud (Para. 21). ▪ Application material is provided highlighting the importance of this vigilance, especially at critical stages of the audit.	21, A29-A32

↑ Source: Prepared by authors.

8 The IAASB has followed a similar approach in other recently revised ISAs (Para. 7 of ISA 220 (Revised); Para. 3 of ISA 315 (Revised); Para. 9 of ISA 600 (Revised)).

//// TABLE 4 Key changes related to communication with management and those charged with governance

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
The required communications with those charged with governance regarding fraud considerations may not be sufficiently robust or explicit. There should be open and ongoing dialogue throughout the audit.	40	New requirements and application material to support continuous and appropriate communication with management and those charged with governance on matters related to fraud throughout the audit.	25, A39-A43
Need to conduct more robust inquiries into deficiencies in the internal control system related to the prevention and detection of fraud.	18	▪ Enhanced requirements to inquire about deficiencies in internal control, including inquiries of those charged with governance regarding such deficiencies and remedial efforts. ▪ Strengthened application material on inquiries of those charged with governance, management and inquiries regarding internal audit.	34(c)-(d), 35(b), 36(b) A75-A78, A89-A91, A93-A94
Need to make inquiries at different levels of management regarding inappropriate or unusual accounting activity.	33(a)(i)	A new requirement is introduced to make inquiries about fraud or suspected fraud with a level of management at least one level above those involved and, where appropriate, with those charged with governance (Para. 55(a)).	50(a), 55(a)
Need to align terminology.	41-44	Terminology used in the communication requirements is aligned with the key concept of "fraud or suspected fraud".	66-69

↑ Source: Prepared by authors.

//// **TABLE 5** Key changes on risk identification and assessment[9]

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
The process of identifying and assessing risks relating to fraud needs to be more robust. The content of ISA 240 must be made consistent with the content of other related ISAs, especially ISA 315 (Revised 2019), but always from the perspective of fraud.	17	Requirement reinforced in line with para. 13 of ISA 315 (Revised).	26
	24	Requirement reinforced in line with paras. 15 and 16 of ISA 315 (Revised).	27
	25	▪ Requirement is reinforced in line with paras. 15 and 16 of ISA 315 (Revised). ▪ Part of the essential material has been moved to application material.	32, A23
	26	The requirement to identify and assess the risks of material misstatement due to fraud has been reinforced, taking into account fraud risk factors, in line with paras. 28–34 of ISA 315 (Revised).	40
	n.a.	New requirement related to the understanding of the entity and its environment (based on Para. 19 of ISA 315 (Revised)).	33
	n.a.	Requirements have been reinforced and new ones added concerning the understanding of the entity's system of internal control (based on Para. 27 of ISA 315 (Revised)).	34-38
	n.a.	New requirement for the auditor to determine whether identified deficiencies in internal control are relevant to the prevention or detection of fraud (based on Para. 19 of ISA 315 (Revised)).	39

↑ Source: Prepared by authors.

9 The new and strengthened requirements in this area relate to other ISAs, principally ISA 315 (Revised 2019), whose structure has been replicated in the Proposed ISA 240 (Revised). The IAASB has determined that ISA 240 only needs to explain how to perform the procedures set out in ISA 315 (Revised 2019), but from the perspective of fraud. The standard-setter has emphasised presenting the core fraud-focused requirements without duplicating or repeating the requirements in ISA 315 (Revised 2019) or other ISAs. To indicate the link with other ISAs, as established in the *CUSP Drafting Principles and Guidelines*, the phrase "in applying ISA(s)…" is used. Thus, it is made clear that a requirement applies in addition to, or alongside, the requirements of the foundational standard.

//// TABLE 5 (cont.) **Key changes on risk identification and assessment.**

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
Need to reinforce inquiries about inconsistent responses.	15	The auditor is also required to consider inconsistencies in responses to inquiries with internal audit and other members of the entity. This requirement is linked to Para. 11 of ISA 500.	30
The audit team's discussion of fraud considerations is not sufficiently robust.	16	▪ The requirements for the audit team discussion have been reinforced, including exchanges of ideas on the entity's culture, commitment to integrity and ethical values, and fraud risk factors, in line with Para. 17 of ISA 315 (Revised). ▪ New application material on when it may be beneficial to hold further team discussions or involve experts.	29, A38, A49
Analytical procedures at the planning and completion stages of the audit are not sufficiently robust to support consideration of the risk of fraud.	23, 35	The requirements for analytical procedures at the planning and completion stages have been reinforced, replacing the verb "evaluate" with "determine" to reflect the expected level of audit effort[10].	31, 54
Lack of clarity about when it is appropriate to rebut the presumed fraud risk in revenue recognition.	27	▪ The need to consider fraud risk factors when determining the types of revenue or relevant transactions that present fraud risks is clarified, with specific examples. ▪ New application material with examples of events and conditions related to revenue that may give rise to fraud risk factors.	41, A109-A110
Doubts about whether the presumed fraud risk should be extended to other accounts such as goodwill.	n.a.	New application material providing examples of other areas susceptible to fraud. It is emphasised that the auditor's response is based on the identification and assessment of fraud risks at the financial statement level and at the level of specific account balances.	A104

↑ Source: Prepared by authors.

10 This is consistent with the *CUSP Drafting Principles and Guidelines*.

//// **TABLE 6** **Key changes on the auditor's response to fraud or suspected fraud**

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
The auditor's response to the identification of fraud or suspected fraud is not sufficiently clear.	35-38	A specific section is introduced and other sections are reordered to include requirements applicable when fraud or suspected fraud is identified, improving clarity on the auditor's response.	55-59, 66-69
The need to obtain an understanding of the identified fraud or suspected fraud was implicit, not explicit.	n.a.	▪ An explicit requirement is introduced for the auditor to obtain an understanding of the identified fraud or suspected fraud, detailing how this understanding should be obtained and the necessary elements of such understanding (Para. 55) ▪ New application material clarifies that the absence of processes to investigate or remediate the matter may be referred to by the auditor as a deficiency in internal control.	55, A150-A151
Lack of clarity on the determinations the engagement partner should make based on the understanding of fraud or suspected fraud.	n.a.	The engagement partner is required, based on the understanding obtained, to make determinations regarding the effect of the fraud or suspected fraud on the audit.	56
Need to clarify whether the requirements apply to all instances of fraud or suspected fraud, and how to apply them when the fraud is inconsequential.		▪ It is described that the concept of "fraud or suspected fraud identified by the auditor" in the context of ISA 240 refers to any such matter identified by the auditor, directly or indirectly. ▪ It is clarified that the requirements apply to all instances of fraud or suspected fraud, but the nature and extent of procedures may vary depending on the materiality and relevance of the identified fraud.	A7-A10, A29

↑ Source: Prepared by authors.

//// TABLE 7 Key changes related to transparency regarding responsibilities and procedures used in the detection of fraud in the auditor's report[11, 12]

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
The auditor's report may not be sufficiently transparent regarding responsibilities related to fraud and the procedures performed.	n.a.	The relevant paragraphs of ISA 700 (Revised) are enhanced to include the auditor's responsibilities relating to fraud, the communication of these to those charged with governance, and the new responsibilities of the auditor with respect to fraud-related KAMs[13].	ISA 700 (Revised): 40(a), 40(c)
Need for greater clarity and transparency in how the auditor should determine fraud-related KAMs.	n.a.	A filtering mechanism similar to that in ISA 701 is introduced to assist the auditor in determining which fraud-related matters require significant auditor attention and should be communicated as KAMs.	61
Need for greater transparency in the communication of KAMs related to fraud.	n.a.	New application material is introduced to deliberately lead and increase the auditor's tendency to communicate KAMs related to fraud. An amendment in the same regard is also made to Para. 21 of ISA 701.	A168, A170
Need to avoid the use of boilerplate language and encourage the inclusion of entity-specific information about fraud in KAMs.	n.a.	▪ Emphasis is placed on the importance of KAMs related to fraud reflecting the specific circumstances of the entity, avoiding standardised descriptions. ▪ Requirements are aligned with ISA 701.	A173
Given the changes in ISA 240, further conforming amendments are required to ISA 701 (in addition to Para. 21).	n.a.	▪ The reference throughout ISA 701 to the KAM section is updated to read "Key Audit Matters including matters related to fraud" where appropriate. ▪ Para. A8A: to explain the relationship between ISA 701 and Proposed ISA 240 (Revised). ▪ Para. A18A: added to link ISA 701 to the application material introduced to encourage the communication of KAMs related to fraud (A168, A170 of Proposed ISA 240 (Revised)) ▪ Para. A58A: added to refer the auditor to ISA 240 for appropriate reporting when no KAMs related to fraud are communicated.	n.a.

↑ Source: Prepared by authors.

11 The changes related to this matter incorporate the outcome of the IAASB's September 2022 consultation with users of financial statements to understand what information related to the auditor's responsibilities and procedures regarding fraud they would like to see in the auditor's report.

12 In principle, the changes concerning the communication of fraud-related KAMs apply to the financial statements of listed entities. The December 2023 proposal includes expanding the applicability of ISA 701 to audits of the financial statements of Public Interest Entities (PIEs).

13 The IAASB considered three options regarding where fraud-related KAMs should be included in the auditor's report:(1. In a separate section; 2. As a sub-section within the KAM section; 3. Integrated with the other KAMs, with the subheading clearly indicating they relate to fraud). To avoid creating confusion about the relative importance of other KAMs, the Board chose option 3.

//// **TABLE 8** Key changes on documentation[14]

Extant ISA 240		Proposed ISA 240 (Revised)	
Problems identified	Para.	Proposed changes	Para.
Need for clarity on what must be documented in relation to fraud when identifying and assessing risks, performing audit procedures, and concluding.	45-48	The documentation requirements are enhanced to include the auditor's understanding of the entity, its internal control systems, and the nature and scope of the procedures performed.	70(a)-70(g)
Need to adequately document the audit team's discussions regarding the susceptibility of the financial statements to fraud.	45(a)	Requirement simplified to refer more broadly to "the matters discussed" by the engagement team concerning susceptibility to fraud.	70(a)
Lack of clear requirements to document the understanding of the entity and its environment, including the applicable financial reporting framework and the internal control system.	n.a.	In line with Para. 38(b) of ISA 315 (Revised), a requirement is added to document the key elements of the understanding obtained of the entity, its environment, and its internal control system.	70(b)
Need to document the fraud risks identified and assessed, along with the significant judgement involved.	45(b)-45(c)	The requirement is expanded to document not only the fraud risks identified and assessed but also the justification for the significant judgements made.	70(c)
Need to adequately document the results of audit procedures performed to address the risk of fraud.	46(a)	▪ The requirement is expanded to document the results of audit procedures addressing the risk of fraud, the significant judgements made, and the conclusions reached. ▪ A requirement is added to document the identified fraud or suspected fraud, the results of the audit procedures, the significant judgements made, and the conclusions reached.	70(e), 70(f)
Need to adequately document communications and reporting relating to fraud or suspected fraud.	47	The requirements for documenting communications and reporting relating to fraud or suspected fraud are enhanced.	70(g)

↑ Source: Prepared by authors.

14 These changes relate to ISA 230 on audit documentation and to the documentation requirements of ISAs 315 and 330.

4 Additional considerations

The IAASB highlights several key issues in the EM that were considered in developing the Proposed ISA 240 (Revised), including the following:

1. Linkage to other ISAs:
    - The need to clarify the relationship of Proposed ISA 240 (Revised) with other ISAs, such as ISA 250 (Revised) on Consideration of Laws and Regulations in an Audit of Financial Statements, was discussed.
    - The importance of an integrated, risk-based approach to fraud was emphasised, with Proposed ISA 240 (Revised) aligned with other relevant standards, including those addressing quality management (ISA 220 (Revised)), audit evidence (ISA 500), and external confirmations (ISA 505), among others.
    - The standard also refers to foundational ISAs, such as ISA 200, ISA 315 (Revised 2019), and ISA 330, ensuring that the requirements of Proposed ISA 240 (Revised) build on those standards to promote consistent and unified application in audits of financial statements.
2. Impact of technology:
    - The IAASB recognises the significant impact of technology on an entity's ability to commit fraud. Proposed ISA 240 (Revised) addresses this by highlighting the need for the auditor to consider how technology might facilitate fraudulent activities within an entity.
    - It also discusses how technology may be used by auditors to perform procedures related to fraud. Application material is included that describes the use of automated tools and techniques to evaluate the authenticity of documents and records, as well as to test journal entries and other adjustments[15].
    - However, the IAASB notes that it was mindful of maintaining a balance of not "dating" the standard by referring to technologies that may change and evolve.
3. Definitions and clarifications relating to fraud:
    - The IAASB acknowledged the need to clarify how terms such as bribery, corruption, and money laundering relate to the definition of fraud in the context of ISA 240. However, it ultimately decided not to expand the definition of fraud to include these terms due to their different interpretations and definitions across jurisdictions. Instead, the Exposure Draft includes application material explaining how these concepts relate to fraud in an audit of financial statements.
    - The need to clarify the auditor's actions with respect to fraud committed by third parties was also identified, including how this may give rise to additional responsibilities under relevant laws, regulations, or ethical requirements.
4. Scalability and applicability of the standard:
    - The IAASB discusses the importance of ensuring that Proposed ISA 240 (Revised) is scalable and applicable to entities of different sizes and complexities. This means that the require-

15 The Exposure Draft includes considerations on the use of technology in application material paragraphs 5, 9, 28, 35, 51, 60, 64, 85, 97, 116, 117, 135, 139, 143 and in Appendices 2 and 4.

ments of the standard must be flexible and adaptable for application both in large corporations and in small and medium-sized entities.

- The need for the standard to be clear and consistent in its application is emphasised, promoting an audit approach that is robust but also adaptable to the different circumstances auditors may encounter in practice.

5 Future of proposed ISA 240 (Revised)

The public consultation period on the Exposure Draft of Proposed ISA 240 (Revised) ended on 5 June 2024. Although stakeholders were invited to submit comments on any aspect of the Exposure Draft, the IAASB guided the consultation by posing twelve specific questions, which are presented in **Table 9.**

//// **TABLE 9 Public consultation questions on the Exposure Draft of Proposed ISA 240 (Revised)**

Question	Reference – Proposed ISA 240 (Revised)
1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?	Paras. 1-11 & 14
2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?	Paras. 12-13 & 19-21
3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?	Paras. 26-42
4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?	Paras. 55-59 & 66-69
5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report?	Paras. 61-64
6. In your view, should transparency in the auditor's report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?	Paras. 61-64
7. Do you agree with the IAASB's decision not to include a separate stand-back requirement in ED-240 to evaluate whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud?	-
8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities)?	-
9. Does ED-240 have appropriate linkages to other ISAs to promote the application of the ISAs in an integrated manner?	-
10. Are there any other matters you would like to raise in relation to ED-240?	-
11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.	-
12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with other projects, would 18 months provide a sufficient period to support effective implementation of the ISA?	Para. 16

↑ Source: Prepared by authors.

For Questions 1 to 9, the response template offered a dropdown menu allowing respondents to select from several options, which have been coded as follows:

- AG: Agree, with no further comments.
- AGC: Agree, with comments below.
- DA: Disagree, with comments below.
- NAD: Neither agree/disagree, but see comments below.
- NR: No response.

For Question 10, the response options were:

- C: Yes, comments.
- NR: No, no further comments.

Questions 11 and 12 could also be answered by including comments (C) or left unanswered (NR).

As of the date of this report, the IAASB has published the 89 responses received. No analysis or conclusions from the IAASB have yet been released regarding those responses or their potential impact on the final drafting of the standard. The analysis presented in this section aims to help assess the extent of stakeholder agreement with the proposed standard, and, where applicable, to identify controversial aspects of the Exposure Draft that may ultimately lead the IAASB to amend certain elements in the final version, expected in March 2025.

Of the 89 responses, 5 were excluded: one due to a duplicate submission; three because they did not follow the standard response format; and one because the respondent was not identified. Accordingly, the analysis that follows, without detailed examination of the respondents' comments, is based on 84 responses.

Table 10 shows the distribution of responses by geographic origin and respondent profile. The data show diversity in both geographic distribution and type of respondent. By region, the largest number of responses (26.2%) came from Europe, and the smallest from South America (6.0%). Notably, 20.2% of responses came from global respondents, primarily accounting firms. Regarding the profile of respondents, the most significant participation came from Member Bodies and Other Professional Organizations, which accounted for 45.2% of the responses, followed by Regulators and Audit Oversight Authorities and Public Sector Organizations with 27.4%, and Accounting Firms with 19%. Participation by Academics, and Investors and Analysts was much lower, with only 7 responses across both groups.

//// TABLE 10 Distribution of responses to the IAASB public consultation on the Exposure Draft of Proposed ISA 240 (Revised), by country of origin and respondent profile

Profile \ Origin	Total	Global	Middle East and Africa	Asia Pacific	Europe	North America	South America
Total	**84 (100.0%)**	**17 (20.2%)**	**9 (10.7%)**	**14 (16.7%)**	**22 (26.2%)**	**17 (20.2%)**	**5 (6.0%)**
Academics	**4 (4.8%)**	0 (0.0%)	1 (1.2%)	1 (1.2%)	1 (1.2%)	1 (1.2%)	0 (0.0%)
Accounting firms	**16 (19.0%)**	11 (13.1%)	0 (0.0%)	1 (1.2%)	1 (1.2%)	3 (3.6%)	0 (0.0%)
Investors/analysts	**3 (3.6%)**	2 (2.4%)	0 (0.0%)	0 (0.0%)	1 (1.2%)	0 (0.0%)	0 (0.0%)
Professional organizations	**38 (45.2%)**	3 (3.6%)	5 (6.0%)	9 (10.7%)	11 (13.1%)	6 (7.1%)	4 (4.8%)
Regulators and public sector organizations	**23 (27.4%)**	1 (1.2%)	3 (3.6%)	3 (3.6%)	8 (9.5%)	7 (8.3%)	1 (1.2%)

↑ Source: Prepared by authors.

Tables 11 and 12 show the distribution of responses to questions one to nine and questions ten to twelve, respectively.

As shown in Table 9, questions one to nine are phrased in such a way that the responses AG and AGC indicate that the respondent agrees, with or without comments, with the changes introduced by the regulator in ISA 240, while the response DA indicates that the changes do not satisfy the respondent, and responses NAD or NR express indifference to the corresponding change.

The data in Table 11 reveal that, in general, the level of agreement with the changes introduced by the IAASB is high, since the percentage of total responses in which the respondent expresses agreement, with or without additional comments (AG or AGC), is 62.2%, compared with 25.9% of responses in which disagreement is expressed (DA) and 11.9% in which indifference is expressed.

Focusing on the 196 responses in which disagreement is expressed, it is possible to identify those aspects of the draft which, *a priori*, could give rise to modifications in the final version of the standard. In this regard, the following can be highlighted:

- Only one question, the fifth, shows a level of disagreement above 50%, namely 51.2%. This question concerns the changes aimed at enhancing transparency about matters related to fraud in the auditor's report.
- The second question with the highest level of disagreement is the sixth, with 47.6%. In this question, the IAASB sought views on whether the transparency in the auditor's report about matters related to fraud introduced in ED-240 should be applicable to audits of financial statements of entities other than listed entities.
- The third issue with the highest level of disagreement is the eighth, with 32.1%, referring to the adequate integration of scalability considerations in the draft to make it applicable to entities of different sizes and complexities.
- The remaining questions show a level of disagreement below 25%, generating more controversy, in the following order; questions three, one and seven, four, nine and two.

//// **TABLE 11** **Percentage distribution of responses to questions one to nine of the IAASB public consultation on the Exposure Draft of Proposed ISA 240 (Revised)**

Question \ Response	AG	AGC	DA	NAD	NR	Total
1. *Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?*	51.2%	13.1%	21.4%	13.1%	1.2%	**100.0%**
2. *Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?*	63.1%	22.6%	8.3%	3.6%	2.4%	**100.0%**
3. *Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019) and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?*	47.6%	22.6%	22.6%	3.6%	3.6%	**100.0%**
4. *Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?*	50.0%	20.2%	16.7%	10.7%	2.4%	**100.0%**
5. *Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report?*	26.2%	11.9%	51.2%	6.0%	4.8%	**100.0%**
6. *In your view, should transparency in the auditor's report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?*	26.2%	15.5%	47.6%	6.0%	4.8%	**100.0%**
7. *Do you agree with the IAASB's decision not to include a separate stand-back requirement in ED-240 to evaluate whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud**?***	40.5%	32.1%	21.4%	2.4%	3.6%	**100.0%**
8. *Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities)?*	27.4%	25.0%	32.1%	7.1%	8.3%	**100.0%**
9. *Does ED-240 have appropriate linkages to other ISAs to promote the application of the ISAs in an integrated manner?*	36.9%	27.4%	11.9%	13.1%	10.7%	**100.0%**
Total	41.0%	21.2%	25.9%	7.3%	4.6%	100.0%

↑ Source: Prepared by authors.

//// **TABLE 12** **Percentage distribution of responses to questions ten to twelve of the IAASB public consultation on the Exposure Draft of Proposed ISA 240 (Revised)**

Question \ Response	NR	C	Total
10. *Are there any other matters you would like to raise in relation to ED-240?*	40.5%	59.5%	**100.0%**
11. *Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.*	73.8%	26.2%	**100.0%**
12. *Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with other projects, would 18 months provide a sufficient period to support effective implementation of the ISA?*	31.0%	69.0%	**100.0%**
Total	**48.4%**	**51.6%**	**100.0%**

↑ Source: Prepared by authors.

With regard to questions ten, eleven and twelve, respondents either do not respond or make comments. As shown in **Table 12**, in questions ten and twelve the majority of respondents make comments, 59.5% and 69%, respectively.

Question ten merits further analysis as the IAASB asks respondents to indicate whether there are any other matters they would like to raise in relation to the Exposure Draft. **Table 13** shows a list of the topics proposed by respondents who make comments on this question. The responses are very diverse, both in terms of format and content. The following is a summary of the main issues, in order of relevance:

1. First, respondents call for greater clarity regarding the procedures the auditor is required to perform, particularly with respect to the testing of journal entries (e.g.: Deloitte, ICAEW), the analytical procedures performed by the auditor (e.g.: AUASB, AIC), or the documentation that must be prepared (e.g.: CA ANZ).
2. Second, respondents request changes to the drafting of Exposure Draft, either pointing out a specific inconsistency (e.g.: JICPA), or suggesting alternative wording (e.g.: PwC). In other cases, the suggested changes refer to a lack of consistency between some sections of Exposure Draft (e.g.: AICPA).
3. Third, with the same frequency as the above, is the request for improved examples. Respondents call for guidance so that the auditor knows how to proceed in certain situations and what type of circumstances should be identified (e.g.: AFAANZ, RSM Int).
4. Thereafter, a total of 13 respondents, both international organisations (e.g: IOSCO) as well as professional organisations (e.g.: Accountancy Europe) or firms (e.g.: Deloitte) consider that the definition of fraud, its relationship to corruption and other unlawful practices, is not clearly set out in the Exposure Draft. This affects the auditor's work and responsibilities. Based on the responses received, this appears to be an issue that remains unresolved (e.g.: Chartered Accountants Ireland).
5. Another issue identified relates to the need for better linkage and coherence with other standards. Respondents request, for example, closer alignment with the IESBA (e.g.: CEAOB, IAASA) and enhanced linkage with other ISAs (e.g.: KPMG).

6. In line with the need to improve the definition of fraud mentioned above, some responses explicitly state that the Exposure Draft does not address the expectations gap regarding the auditor's role in the prevention of fraud (e.g.: EY, Forvis Mazars).
7. A total of six responses explicitly mention the role of technology, either as a tool for the auditor in carrying out their work, or in the perpetration of fraud. These respondents consider that not enough importance has been given to this issue in the Exposure Draft (e.g.: KPMG).
8. The next issue identified concerns the need to improve communication with management and those charged with governance (e.g.: AUASB), along with the need to improve the education of stakeholders regarding the auditor's actual role with respect to fraud (e.g.: IAASA), a matter closely related to the expectations gap and which remains a concern.
9. Other issues relate to the use of experts, mainly in forensic services. It is requested that the standard provide guidance to the auditor on when and how to use them (e.g.: IRBA, RSM Int).
10. The issue of scalability to smaller companies appears below (e.g.: ICAJ, CPA Ontario SMP Advisory Committee), also closely related to the use of forensic services.
11. Some respondents request a more in-depth analysis of how the standard could be applied in the public sector.
12. Although this issue was explicitly asked about in questions five and six, concerning transparency in the report, some respondents express concern about how circumstances related to fraud should appear in the auditor's report. With regard to risk factors, we find comments pointing to incomplete drafting, as not all elements of the fraud triangle are incorporated (e.g.: NBA, the Royal Netherlands Institute of Chartered Accountants, IOSCO).
13. Finally, there are comments on various matters such as the request to include the role of whistleblowers in the standard (e.g.: Pennsylvania Institute of Certified Public Accountants), or the incorporation of fraud prevention measures (e.g.: Institute of Chartered Accountants of Sri Lanka), among others.

//// TABLE 13 Additional issues relating to the Exposure Draft raised by respondents in their responses to question ten (Are there any other matters you would like to raise in relation to ED-240?)

Topic	Number of respondents raising the issue
Clarification on procedures to be performed by the auditor	16
Changes in drafting	14
Improvement of examples	14
Improved definition of fraud	13
Linkage with other standards	8
Expectation gap	7
Use of technology	6
Communication	5
Education	5
Use of experts	4
Issue of small firms	4
Public Sector	4
Reports	3
Risk factors	3
Others	5

With regard to question twelve, in which the IAASB seeks to know whether the respondent believes that a period of approximately 18 months after approval of the final standard would be sufficient to support effective implementation, detailed analysis of the comments made by the 69% of respond-

ents suggests that they are satisfied with the implementation timeline, although they point to the need to take into account the circumstances of smaller firms.

In question eleven, where the IAASB asks respondents to comment on possible translation issues, a large majority, 73.8%, do not respond. This may simply indicate that for the vast majority of stakeholders the translation of IAASB standards is not a problem. This is not surprising, given the profile of respondents, the types of entities and firms to which the ISAs are primarily addressed, and the growing acceptance of English as an international and business language. In terms of the profile of the 22 referrers indicating concerns in this regard, 13 are professional organisations, 6 are regulators and 3 are accounting firms. In terms of origin, there are 7 comments from European respondents, 3 from Africa, 3 from Asia, 3 from global, 5 from North America and 1 from South America.

The level of disagreement with the changes proposed in the Exposure Draft has also been analysed by respondent profile and origin. **Table 14** provides evidence in this regard, based on the 196 responses that express disagreement (DA response, see Table 11). As for disagreement by origin (Panel A), it is European respondents who account for the highest proportion of disagreement responses (31.6%), followed by those from North America (25.5%), global respondents (22.4%), Asian respondents (14.8%), African respondents (3.6%), and finally South American respondents (2%). If we compare these percentages with the distribution of respondents by origin (Table 10), it can be seen that global, European, and North American respondents account for a share of total disagreements that is higher than their weight in the sample, while the opposite is true for respondents from Africa, Asia, and South America. This means that the tendency to express disagreement is greater in the first three geographical areas than in the latter three. At question level, the data reveal that the level of disagreement among respondents from different geographical areas is uneven: for example, European respondents account for the majority of disagreements in questions one, three, and nine, with 70% of the disagreements on question nine, which concerns the inclusion in the Exposure Draft of appropriate linkages with other ISAs to promote application of the standards in an integrated manner, coming from European respondents; whereas in other questions, such as four and five, the weight of North American respondents is greater.

As regards the distribution of disagreements by respondent profile (Panel B), there are also biases with respect to the weight of the different profiles in the respondent sample. The respondents accounting for the highest percentage of disagreements in the sample are professional organisations (48%), followed by regulators and other public organisations (26.5%), accounting firms (20.4%), academics (3.6%), and investors and analysts (1.5%). The specific concerns about the content of the Exposure Draft expressed by the different stakeholder groups are also heterogeneous. For example, it is notable that investors and analysts express disagreement (16.7%) on only one question, question six, concerning the application of transparency in the auditor's report on matters related to fraud to other entities; academics concentrate the vast majority of their disagreements on question two, related to the ability of the Exposure Draft to strengthen professional scepticism, whereas accounting firms express disagreement on all questions except that one.

//// **TABLE 14** **Profile and origin of respondents expressing disagreement with the Exposure Draft**

Panel A: Percentage distribution of respondents expressing disagreement with each question, by origin.

Question \ Origin	Global	Middle East and Africa	Asia Pacific	Europe	North America	South America
1	22.2%	0.0%	16.7%	33.3%	27.8%	0.0%
2	28.6%	0.0%	14.3%	42.9%	14.3%	0.0%
3	26.3%	0.0%	10.5%	42.1%	21.1%	0.0%
4	21.4%	7.1%	21.4%	21.4%	28.6%	0.0%
5	23.3%	2.3%	14.0%	27.9%	30.2%	2.3%
6	22.5%	7.5%	15.0%	17.5%	32.5%	5.0%
7	27.8%	0.0%	22.2%	44.4%	5.6%	0.0%
8	22.2%	7.4%	11.1%	29.6%	25.9%	3.7%
9	0.0%	0.0%	10.0%	70.0%	20.0%	0.0%
Total	**22.4%**	**3.6%**	**14.8%**	**31.6%**	**25.5%**	**2.0%**

Panel B: Percentage distribution of respondents expressing disagreement with each question, by profile.

Question \ Profile	Academics	Accounting firm	Investors/ analysts	Professional organizations	Regulators and public sector organizations
1	5.6%	22.2%	0.0%	55.6%	16.7%
2	28.6%	0.0%	0.0%	42.9%	28.6%
3	5.3%	21.1%	0.0%	52.6%	21.1%
4	0.0%	14.3%	0.0%	50.0%	35.7%
5	2.3%	18.6%	0.0%	46.5%	32.6%
6	2.5%	27.5%	0.0%	52.5%	17.5%
7	5.6%	27.8%	16.7%	11.1%	38.9%
8	0.0%	14.8%	0.0%	59.3%	25.9%
9	0.0%	20.0%	0.0%	50.0%	30.0%
Total	**3.6%**	**20.4%**	**1.5%**	48.0%	26.5%

6 Conclusions

This document aims to identify the changes proposed in the Exposure Draft of Proposed ISA 240 (Revised), published by the IAASB in December 2023, as well as the areas of the standard that have proven most contentious and could lead to revisions to the IAASB's proposal ahead of publication of the final version, scheduled for March 2025.

The IAASB began revising this ISA in 2020, driven by the need to reduce the expectations gap between the auditor's responsibilities and what the public expects of their role in detecting fraud.

The main new features of Proposed ISA 240 (Revised) include the following:

- Clarification of the auditor's responsibilities: The revised version clearly separates the auditor's responsibilities from the inherent limitations of the audit, emphasising that these limitations do not exempt the auditor from responsibilities relating to fraud detection.
- Reinforcement of professional scepticism: References to the presumption of management's honesty have been removed, and the auditor's exercise of professional scepticism is reinforced throughout the engagement, with additional requirements to investigate further in cases of suspected fraud.
- Ongoing communication: The proposed standard establishes the need for continuous communication between the auditor and both management and those charged with governance on matters related to fraud, thereby improving collaboration and the identification of risks.
- Risk identification and assessment: The procedures for identifying and assessing fraud risks are clarified, with more stringent guidance, particularly in areas such as revenue recognition.
- Transparency in audit reports: The proposed standard strengthens requirements related to transparency in the auditor's report, obliging the auditor to clearly disclose the procedures performed in relation to fraud detection and the responsibilities assumed.
- More detailed documentation: More rigorous requirements are introduced regarding the documentation of the auditor's understanding of the entity, the fraud risks identified, and the procedures performed to address those risks.
- The Exposure Draft includes several appendices with further details that must be considered, such as the selection of journal entries for analysis and linkages to other ISAs.

The report includes an analysis of the responses to the public consultation on the Exposure Draft, which closed on 5 June 2024. The IAASB received 89 responses, and certain areas of disagreement have been identified. The most controversial issues that could lead to revisions in the final standard include the following:

- Concerns have been raised about the applicability of the standard to smaller entities. The IAASB is expected to ensure greater flexibility and adaptability.
- There is disagreement about whether the increased transparency in the auditor's report should apply only to listed entities or to other types of entities as well.
- Respondents call for greater clarity on the use of technology, both as a tool in audits and in relation to fraud.

- Further precision is requested in the definition of fraud and its connection to other offences, such as corruption.
- Better alignment of ISA 240 with other relevant standards is suggested, particularly those dealing with quality management and ethical responsibilities.
- The proposed implementation period of 18 months is considered generally adequate, although special consideration is requested for smaller firms.

On balance, while the Exposure Draft of Proposed ISA 240 (Revised) has generally been well received, the points raised suggest that the IAASB may need to consider further adjustments to address concerns related to scalability, the clarity of the definition of fraud, and linkages to other standards.

Annex. Detailed comparison of the current ISA 240 and Proposed ISA 240 (Revised)

		Introduction		
		Scope		
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
1		This ISA addresses the responsibilities of the auditor and the implications for the auditor's report. The requirements and application material in this ISA relate to the application of other relevant ISAs, in particular ISA 200, ISA 220 (Revised), ISA 315 (Revised), ISA 330 and ISA 701.	This ISA deals with the auditor's responsibilities relating to fraud in an audit of financial statements. In particular, it elaborates on how ISA 315 and ISA 330 are to be applied in relation to the risks of material misstatement due to fraud.	▪ Explicit reference to the effect on the auditor's report. ▪ Explicit reference to the most relevant related ISAs, including ISA 701.
		Responsibilities of the auditor, management and those charged with governance		
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
2	Auditor's responsibilities.	The auditor's responsibilities relating to fraud when conducting an audit in accordance with this ISA and other relevant ISAs are to: a) 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. These responsibilities include identifying and assessing risks of material misstatement in the financial statements due to fraud and designing and implementing responses to address those assessed risks. b) Communicate and report on matters related to fraud.	An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.	Change in the description of the auditor's responsibility. The auditor shall: o Plan their work to obtain reasonable assurance the financial statements are free from material misstatement due to fraud. o Report about matters related to fraud (without specifying how).

3	Responsibility of management and those charged with governance.	The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating and maintaining a culture of honesty and ethical behavior that can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manipulate earnings.	The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability.	▪ Reinforces the responsibility of management and those charged with governance to create and maintain a culture of fraud prevention. ▪ Simplifies the section on earnings manipulation by removing the reference to the objectives such manipulation may pursue.
		Key concepts		
		Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
4-5	Characteristics of fraud.	Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.	Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.	▪ Unchanged.
6-7	Fraud or suspected fraud.	Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with a material misstatement of the financial statements due to fraud. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may identify or suspect the occurrence of fraud as defined by this ISA, the auditor does not make legal determinations of whether fraud has actually occurred. The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with this and other ISAs. Suspected fraud includes allegations of fraud that come to the auditor's attention during the course of the audit.	Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.	▪ Removes the characterisation of the detection of fraud by the auditor as rare. ▪ Replaces the term "may suspect" with "may identify". ▪ More emphasis on circumstances involving suspicion of fraud.
8	Circumstances giving rise to the fraud and the identified misstatements.	The auditor's determination of whether a fraud or suspected fraud is material to the financial statements involves the exercise of professional judgment. This includes consideration of the nature of the circumstances giving rise to the fraud or suspected fraud and the identified misstatement(s). Judgments about materiality involve both qualitative and quantitative considerations.	--	▪ New paragraph: express reference to materiality and the auditor's judgement in the event of suspected fraud.

9-11	Inherent limitations.	While the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, that 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. Reasonable assurance is a high, but not absolute, level of assurance. Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override controls designed to prevent similar frauds by other employees.	Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. As described in ISA 200, the potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error. Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.	▪ Reinforces the auditor's obligation to plan and perform the audit with the objective of explicitly concluding that the financial statements are free from material misstatement due to fraud. ▪ Includes an explicit reference that inherent limitations do not relieve the auditor of responsibility. ▪ Removes specific references to limitations on the auditor's ability to detect fraud that could exempt the auditor from responsibility, such as concealment or collusion.

12-13	Scepticism and professional judgement.	In accordance with ISA 200, the auditor is required to plan and perform the audit with professional skepticism, and to exercise professional judgment. The auditor is required by this ISA to remain alert to the possibility that other audit procedures performed may bring information about fraud or suspected fraud. Accordingly, it is important that the auditor maintain professional skepticism throughout the audit. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level.	In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.	▪ Explicit reference to the professional judgment that must accompany professional skepticism. ▪ It emphasises that the auditor must remain alert and maintain skepticism and professional judgment throughout the audit process. ▪ The section stating that the auditor, if there is no reason to believe otherwise, must accept the records and documentation received as genuine is removed. ▪ It refers to both fraud and suspected fraud. ▪ Professional skepticism must be exercised by all members of the engagement team.
14	Non-compliance with laws and regulations.	For the purposes of this and other relevant ISAs, fraud constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this and other ISAs. ISA 250 (Revised) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. Complying with this responsibility and any additional responsibilities relating to relevant ethical requirements may provide further information that is relevant to the auditor's work (e.g., regarding the integrity of management or, where appropriate, those charged with governance).	--	▪ New section on the consequences for the auditor of non-compliance with laws and regulations by the audited entity. ▪ Refers to ISA 250 (Revised) regarding the auditor's responsibility to consider laws and regulations in an audit of financial statements.
		Relationship with other ISAs		
		Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
15		Some ISAs that address specific topics also have requirements and guidance that are applicable to the auditor's work on the identification and assessment of the risks of material misstatement due to fraud and responses to address such assessed risks of material misstatement due to fraud. In these instances, the other ISAs expand on how this ISA is applied.	--	▪ Emphasis on the need for the auditor to consider related ISAs when applying ISA 240 (Revised). ▪ New appendix (Appendix 5) outlining the effect of revised ISA 240 on other ISAs.

Objectives of the ISA			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
17	The objectives of the auditor are: (a) To identify and assess the risks of material misstatement of the financial statements due to fraud; (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; (c) To respond appropriately to fraud or suspected fraud identified during the audit; and (d) To report in accordance with this ISA.	The objectives of the auditor are: (a) To identify and assess the risks of material misstatement of the financial statements due to fraud; (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and (c) To respond appropriately to fraud or suspected fraud identified during the audit.	▪ The objective of reporting the facts is expressly included.
Definitions			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
18	For purposes of the ISAs, the following terms have the meanings attributed below: (a) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.	For purposes of the ISAs, the following terms have the meanings attributed below: (a) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.	▪ Unchanged.
Requirements			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
19-21 Professional skepticism.	In applying ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. The auditor shall remain alert throughout the audit for information that is indicative of fraud or suspected fraud.	In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.	▪ Slight change in wording: removes the reference to "past experience of the honesty and integrity of the entity's management and those charged with governance". ▪ It removes the section stating that unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. ▪ It reinforces the responsibility to stay alert throughout the audit. ▪ It reiterates the need to do so in the event of fraud or suspected fraud.

Engagement resources			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
22	In applying ISA 220 (Revised), the engagement partner shall determine that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time and appropriate specialized skills or knowledge to perform risk assessment procedures, identify and assess the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained.	--	▪ New section: the engagement partner shall determine the competence and capabilities of the engagement team to identify risks arising from fraud.
Engagement performance			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
23-24	In applying ISA 220 (Revised), the engagement partner shall determine the nature and timing as well as the supervision and review of each audit engagement, taking into account the: (a) Skills, knowledge, and experience of the individuals to be given significant engagement responsibilities; and (b) Risks of material misstatement due to fraud identified and assessed in accordance with ISA 315 (Revised 2019). The engagement partner shall consider matters including: (a) Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud (i.e., fraud risk factors are present); (b) Fraud or suspected fraud; (c) Control deficiencies related to the prevention or detection of fraud.	In addition to information obtained from applying analytical procedures, other information obtained about the entity and its environment may be helpful in identifying the risks of material misstatement due to fraud. The discussion among team members may provide information that is helpful in identifying such risks. In addition, information obtained from the auditor's client acceptance and retention processes, and experience gained on other engagements performed for the entity, for example, engagements to review interim financial information, may be relevant in the identification of the risks of material misstatement due to fraud (in Application Material).	▪ Expanded guidance on the role of the engagement partner, in line with paragraph 29. ▪ Explicitly requires the engagement partner to lead and determine the direction of the engagement and to take into account the characteristics of the engagement team members and circumstances identified that may give rise to fraud, such as control deficiencies.
Ongoing nature of communications with management and those charged with governance			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
25	The auditor shall communicate with management and those charged with governance matters related to fraud at appropriate times throughout the audit engagement.	If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.	▪ It simplifies the general section on communication with management and those charged with governance. It is developed further below.

Risk assessment procedures and related activities				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
26		In applying ISA 315 (Revised 2019), the auditor shall perform the procedures in paragraphs to obtain audit evidence that provides an appropriate basis for the: (a) Identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels, taking into account fraud risk factors. (b) Design of further audit procedures in accordance with ISA 330.	When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by ISA 315 (Revised), the auditor shall perform the procedures in paragraphs 17-24 to obtain information for use in identifying the risks of material misstatement due to fraud.	▪ Shortened wording on how the auditor should act, always in accordance with the other ISAs.
27	Information from other sources.	In applying ISA 315 (Revised 2019), the auditor shall consider whether information from other sources indicates that one or more fraud risk factors are present.	The auditor shall consider whether other information obtained by the auditor indicates risks of material misstatement due to fraud.	▪ Changed from "other information" to "information from other sources".
28	Retrospective review of the outcome of previous accounting estimates.	In applying ISA 540 (Revised), the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review.	--	▪ New section on the need to review management's retrospective estimates and judgements to identify fraud risks.

29	Engagement team discussion.	In applying ISA 315 (Revised 2019), when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include: (a) An exchange of ideas about: (i) The entity's culture, management's commitment to integrity and ethical values, and related oversight by those charged with governance; (ii) Fraud risk factors, including risk factors, including Incentives or pressures on management, those charged with governance, or employees to commit fraud; (iii) How one or more individuals among management, those charged with governance, or employees could perpetrate and conceal fraudulent financial reporting; and (iv) How assets of the entity could be misappropriated by management, those charged with governance, employees or third parties. (b) A consideration of any fraud or suspected fraud, including allegations of fraud, that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years.	ISA 315 (Revised) requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.	▪ Greater emphasis on the role of the engagement partner in leading the discussion with the team on matters that may involve fraud. ▪ It specifies the content of the team discussion. Among other things, the audit team is required to explicitly discuss the entity's ethical culture and possible fraud risk factors relevant to the audit. ▪ It removes the reference to disregarding the engagement team members' views on the honesty and integrity of management or those charged with governance.
30	Inquiries of management and inconsistent responses.	In applying ISA 500, if the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity, are inconsistent with each other, the auditor shall: (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and (b) consider the effect, if any, on other aspects of the audit.	Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.	▪ It includes guidance on how to respond to inconsistencies in the responses of management and others.

31	Analytical procedures performed and unusual or unexpected relationships identified.	The auditor shall determine whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.	The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.	▪ No significant changes.
32	Evaluation of fraud risk factors.	The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures and related activities indicates that one or more fraud risk factors are present.	The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.	▪ It removes the section stating that risk factors do not necessarily indicate the existence of fraud.
Obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
33	Understanding the entity and its environment, and the applicable financial reporting framework.	In applying ISA 315 (Revised 2019),19 the auditor shall obtain an understanding of matters related to the: (a) Entity and its environment that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors, including with respect to: (i) The entity's organizational structure and ownership, governance, objectives and strategy, and geographic dispersion; (ii) The industry; and (iii) The performance measures used, whether internal or external, that may create incentives or pressures to achieve financial performance targets. (b) Applicable financial reporting framework and the entity's accounting policies that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors.	When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by ISA 315 (Revised), the auditor shall perform the procedures in paragraphs 17-24 to obtain information for use in identifying the risks of material misstatement due to fraud.	▪ Explicit detailed reference to ISA 315 (Revised).

Understanding the components of the entity's system of internal control				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
34	Control environment.	In applying ISA 315 (Revised 2019), the auditor shall: (a) Obtain an understanding of how management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates with its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud; (b) Obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the controls that management has established to address these risks; (c) Make inquiries of management regarding management's communications with those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; (d) Make inquiries of those charged with governance about: (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; (ii) Their views about whether and how the financial statements may be materially misstated due to fraud, including their views on possible areas that are susceptible to misstatement due to management bias or management fraud; and (iii) Whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies.	The auditor shall make inquiries of management regarding: (a) Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and (d) Management's communication, if any, to employees regarding its views on business practices and ethical behavior.	▪ Much more detailed wording of the obligation to understand the control environment, in line with ISA 315 (Revised). ▪ It sets out more categorical and detailed requirements for the auditor's actions: the auditor shall make inquiries of management and those charged with governance.

Risk assessment process				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
35		In applying ISA 315 (Revised 2019), the auditor shall: (a) gain an understanding of how the entity's risk assessment process: (i) Identifies fraud risks related to the misappropriation of assets and fraudulent financial reporting, including any classes of transactions, account balances, or disclosures for which risks of fraud exist; (ii) Assesses the significance of the identified fraud risks, including the likelihood of their occurrence; and (iii) Addresses the assessed fraud risks. (b) Make inquiries of management and of other appropriate individuals within the entity about: (i) Whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity; and (ii) Their views on whether the financial statements may be materially misstated due to fraud.	--	▪ New wording on the analysis the auditor must perform of the entity's risk assessment process, in line with the requirements of ISA 315 (Revised).
36	The entity's process to monitor the system of internal control.	In applying ISA 315 (Revised 2019), the auditor shall: (a) Obtain an understanding of aspects of the entity's process that address the ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud, and the identification and remediation of related control deficiencies; (b) Make inquiries of appropriate individuals within the internal audit function (if the function exists) about whether they have knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity and to obtain their views about the risks of fraud.	The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. For those entities that have an internal audit function, the auditor shall make inquiries of appropriate individuals within the function to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	▪ More detailed drafting.
37	The information system and communication.	In applying ISA 315 (Revised 2019), the auditor's understanding of the entity's information system and communication relevant to the preparation of the financial statements shall include understanding how journal entries are initiated, processed, recorded, and corrected as necessary.	--	▪ New wording: emphasises the need to understand the entity's information and communication system, in line with ISA 315 (Revised).

38	Control activities.	In applying ISA 315 (Revised 2019), the auditor's understanding of the entity's control activities shall include identifying controls that address risks of material misstatement due to fraud at the assertion level, including controls over journal entries, designed to prevent or detect fraud.	The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.	▪ Change in wording: requires the auditor to identify which controls may address risks of material misstatement due to fraud, in line with ISA 315 (Revised).
39	Control deficiencies within the entity's system of internal control.	In applying ISA 315 (Revised 2019), based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether there are deficiencies in internal control identified that are relevant to the prevention or detection of fraud.	--	▪ New wording: requires the auditor to determine whether there are internal control deficiencies that are relevant to the detection or prevention of fraud, in line with ISA 315 (Revised).

Identifying and assessing the risks of material misstatement due to fraud

		Proposed ISA 240 (Revised)	Current ISA 240	Changes
40		In applying ISA 315 (Revised 2019), the auditor shall: (a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors; (b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such risks, evaluate whether they have been designed effectively and determine whether they have been implemented.	In accordance with ISA 315 (Revised), the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures. The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.	▪ Similar wording, in line with the requirements of ISA 315 (Revised). ▪ In contrast to the previous wording, which required the auditor to "obtain an understanding of the entity's related controls relevant to such risks," it now expressly requires the auditor to evaluate whether the controls "have been designed effectively and have been implemented".
41	Presumption of the risks of material misstatement due to fraud in revenue recognition.	When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, taking into account related fraud risk factors.	When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.	▪ New wording, more concise, no significant changes.

42	Significant risks related to management override of controls.	Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall treat those risks as risks of material misstatement due to fraud and thus significant risks.	Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.	▪ New wording, more concise, no significant changes in content.
		Responses to the assessed risks of material misstatement due to fraud		
		Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
43	Designing and performing audit procedures in a manner that is not biased.	The auditor shall design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may contradict such assertions.	--	▪ New paragraph: the design of audit procedures and tests should not be aimed at corroborating one outcome or another.
44	Unpredictability in the selection of audit procedures.	The auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures in determining responses to address the assessed risks of material misstatement due to fraud.	The auditor shall incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.	▪ Further development of unpredictability.
45	Overall responses.	In accordance with ISA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level.	In accordance with ISA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level.	▪ Wording with no significant changes.

46		In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.	In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall: (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement. (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings.	▪ The part on the audit team is developed in detail in paragraphs 23, 24 and 29. ▪ The part on the evaluation of accounting policies is similar.
47		In accordance with ISA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.	In accordance with ISA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.	▪ No significant changes.
48	Audit procedures responsive to risks related to management override of controls.	Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform the audit procedures in accordance with paragraphs 49–53, and determine whether other audit procedures are needed in addition to those in paragraphs 49–53, in order to respond to the identified risks of management override of controls.	Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures.	▪ Change of wording, similar in content.
Audit procedures responsive to the assessed risks of material misstatement due to fraud at the assertion level				
		Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
49	Journal entries and other adjustments.	The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	The auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	▪ Change of wording, similar in content.

50		In designing and performing audit procedures in accordance with paragraph 49, the auditor shall: (a) Make inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments; (b) Obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements throughout the period; (c) Select journal entries and other adjustments made at the end of a reporting period; and (d) Determine the need to test journal entries and other adjustments throughout the period.	In designing and performing audit procedures for such tests, the auditor shall: (i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; (ii) Select journal entries and other adjustments made at the end of a reporting period; (iii) Consider the need to test journal entries and other adjustments throughout the period.	▪ It includes more detailed guidance on what the auditor should do when designing and performing audit procedures to test the appropriateness of the accounting records.
51-52	Accounting estimates	In applying ISA 540 (Revised), the auditor shall evaluate whether management's judgments and decisions in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias that may represent a risk of material misstatement due to fraud. In performing the evaluation in accordance with paragraph 51, the auditor shall: (a) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 28; and (b) If indicators of possible management bias are identified, reevaluate the accounting estimates taken as a whole.	Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall: (i) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall reevaluate the accounting estimates taken as a whole; and (ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.	▪ More concise wording, with reference to ISA 540 (Revised) on estimates.
53	Significant transactions outside the normal course of business or otherwise appear unusual.	For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.	For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.	▪ No significant changes.

54	Analytical procedures performed near the end of the audit in forming an overall conclusion.	In applying ISA 520, the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud.	The auditor shall evaluate whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud.	▪ No significant changes. ▪ It explicitly mentions what is required by ISA 520.

Fraud or suspected fraud				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
55	--	If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter in order to determine the effect on the audit engagement. In doing so, the auditor shall: (a) Make inquiries about the matter with a level of management that is at least one level above those involved and, when appropriate in the circumstances, make inquiries about the matter with those charged with governance; (b) If the entity has a process to investigate the matter, evaluate whether it is appropriate in the circumstances; (c) If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances; and (d) Determine whether control deficiencies exist, including significant deficiencies in internal control related to the prevention or detection of fraud, relating to the identified fraud or suspected fraud.		New wording: ▪ It details how the auditor should act when fraud is suspected. ▪ It identifies the steps to be taken by the auditor.

56	Based on the understanding obtained in accordance with paragraph 55, the engagement partner shall: (a) Determine whether: (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019); (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with ISA 330 and ISA 520; (iii) There are additional responsibilities under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised). (b) If applicable, consider the impact on other engagements, including audit engagements from prior years.		▪ New wording: it expressly requires the engagement partner to determine the additional procedures to be performed and to assess the impact of the suspected fraud or fraud.
57	If the auditor identifies a misstatement due to fraud, the auditor shall: (a) Determine whether the identified misstatement is material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement; (b) Determine the implications of the misstatement in relation to other aspects of the audit, including when the auditor has reason to believe that management is involved; and (c) Reconsider the reliability of management's representations and audit evidence previously obtained when the circumstances or conditions giving rise to the misstatement indicate possible collusion involving employees, management or third parties.	--	▪ New wording: it expressly requires the auditor to determine the materiality of the misstatement and to reassess the reliance placed on management for the remainder of the audit.
58	If the auditor determines that the financial statements are materially misstated due to fraud, the auditor shall: (a) Determine the implications for the audit and the auditor's opinion on the financial statements in accordance with ISA 705 (Revised); and (b) If appropriate, obtain advice from legal counsel.		▪ New wording: if the misstatement is material, the auditor shall assess how this affects the auditor's report and consider seeking legal advice.
59	If the auditor is unable to conclude whether the financial statements are materially misstated as a result of fraud, the auditor shall determine the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).		▪ New wording: it expressly states that if the auditor is unable to conclude on the effect of material misstatements in the financial statements, the auditor shall apply the requirements of ISA 705 (Revised).

Auditor unable to continue the audit engagement				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
60	--	If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit engagement, the auditor shall: (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities; (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; (c) If the auditor withdraws: (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. (d) Where law or regulation prohibits the auditor from withdrawing from the engagement, consider whether the exceptional circumstances will result in a disclaimer of opinion on the financial statements.	If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall: (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities; (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; and (c) if the auditor withdraws: (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.	▪ Wording similar to the previous version regarding the circumstances in which the auditor may withdraw, if permitted by law or regulation. ▪ It adds that, if withdrawal is not possible, the auditor may consider a disclaimer of opinion.
Implications for the auditor's report				
		Proposed ISA 240 (Revised)	Current ISA 240	Changes
61-62	Determining KAM.	In applying ISA 701, the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (a) Identified and assessed risks of material misstatement due to fraud; (b) The identification of fraud or suspected fraud; and (c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud. In applying ISA 701, the auditor shall determine which of the matters determined in accordance with paragraph 61 were of most significance in the audit of the financial statements of the current period and therefore are KAM.	ISA 450 and ISA 700 establish requirements and provide guidance on the evaluation and disposition of misstatements and the effect on the auditor's opinion in the auditor's report (in Application Material).	▪ New paragraph: it refers to ISA 701 on how KAMs are affected. ▪ It removes references to ISAs 450 and 700.

63-64	Communicating KAM Related to Fraud.	In applying ISA 701, in the KAM section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. In applying ISA 701, if the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters related to fraud to communicate, the auditor shall include a statement to this effect in the KAM section of the auditor's report.		▪ New paragraph: if the auditor includes information about fraud in the KAM, it shall be clearly identified in the auditor's report.
		Written representations		
		Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
65	--	The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (a) They acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud and have appropriately fulfilled those responsibilities; (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; (c) They have disclosed to the auditor their knowledge of fraud or suspected fraud, including allegations of fraud, affecting the entity involving: (i) Management; (ii) Employees who have significant roles in internal control; or (iii) Others where the fraud could have a material effect on the financial statements; and (d) They have disclosed to the auditor their knowledge of suspected fraud, including allegations of fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.	The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (a) They acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud. (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; (c) They have disclosed to the auditor their knowledge of fraud, or suspected fraud, affecting the entity involving: (i) Management; (ii) Employees who have significant roles in internal control; or (iii) Others where the fraud could have a material effect on the financial statements; and (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.	▪ Similar wording. ▪ It requires confirmation of the proper fulfilment of responsibilities. ▪ Greater emphasis on the need to confirm "suspected fraud" rather than "indicators of fraud" as in the previous standard.
		Communications with management and those charged with governance		
		Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
66		If the auditor identifies fraud or suspected fraud, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention or detection of fraud of matters relevant to their responsibilities.	If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.	▪ Similar wording. ▪ It includes nuance on the obligation to communicate "unless prohibited".

67	Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud involving: (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements, the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation.	Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving: (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements, the auditor shall communicate these matters to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.	▪ Similar wording. ▪ It includes nuance on the obligation to communicate "unless prohibited".
68	The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.	The auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to their responsibilities.	▪ Similar wording. ▪ It includes nuance on the obligation to communicate "unless prohibited".
	Reporting to an appropriate authority outside the entity		
	Proposed ISA 240 (Revised)	**Current ISA 240**	**Changes**
69	If the auditor identifies fraud or suspected fraud, the auditor shall determine whether law, regulation or relevant ethical requirements: (a) Require the auditor to report to an appropriate authority outside the entity. (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.	If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances.	▪ Change of wording, similar content.

Documentation			
	Proposed ISA 240 (Revised)	Current ISA 240	Changes
70	In applying ISA 230, the auditor shall include the following in the audit documentation: (a) The matters discussed among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud in accordance with paragraph 29; (b) Key elements of the auditor's understanding in accordance with paragraphs 33–38, the sources of information from which the auditor's understanding was obtained and the risk assessment procedures performed; (c) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level, and the rationale for the significant judgments made; (d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the reasons for that conclusion; (e) The results of audit procedures performed to address the risk of management override of controls, the significant professional judgments made, and the conclusions reached; (f) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached; (g) The matters related to fraud or suspected fraud communicated with management, those charged with governance, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters.	The auditor shall include the following in the audit documentation of the auditor's understanding of the entity and its environment and the assessment of the risks of material misstatement required by ISA 315 (Revised): (a) The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and (b) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level. The auditor shall include the following in the audit documentation of the auditor's responses to the assessed risks of material misstatement required by ISA 330: (a) The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and (b) The results of the audit procedures, including those designed to address the risk of management override of controls. The auditor shall include in the audit documentation communications about fraud made to management, those charged with governance, regulators and others. If the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall include in the audit documentation the reasons for that conclusion.	▪ More specific and focused paragraph on the type of documentation to be included in the audit work. ▪ It refers to ISA 230, removing the explicit reference to ISAs 315 and 330.

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