

Agenda Item 2-A

Summary of Significant Deliberations and Changes

This agenda paper summarizes the Fraud Task Force's (Fraud TF) significant deliberations and changes to proposed ISA 240 (Revised)¹ since the December 2024 IAASB meeting, as reflected in **Agenda Item 2-B**. Unless otherwise indicated, references to paragraph(s) within this agenda item refer to paragraph(s) within proposed ISA 240 (Revised).

Note that the proposed standard presented in **Agenda Item 2-B** has been renumbered. The icon **D→** refers to the paragraph reference based on the numbering of proposed ISA 240 (Revised) presented at the December 2024 IAASB Meeting. The icon is only used for instances when the paragraph references are different between the version of proposed ISA 240 (Revised) presented in **Agenda Item 2-B** and the version that was presented in December 2024.

Reference	Significant Deliberations and Changes
Introduction	
Paragraphs 12–13	<ul style="list-style-type: none"> Moved the cross-reference to paragraphs A13 and A14 to paragraph 13 because the application material is intended to emphasize the connection between a firm's system of quality management and the quality of judgements made at the engagement level referred to in paragraph 13.
Paragraph 14	<ul style="list-style-type: none"> The Fraud TF revised the paragraph for the reasons outlined in paragraph 22 of the Issues Paper (see Agenda Item 2).
Requirements	
Professional Skepticism	
Paragraph 19	<ul style="list-style-type: none"> Removed the cross-reference to application material paragraph A29 from paragraph 19 (D→ A25) and added it to paragraph 20 because the application material deals with circumstances that may be indicative of fraud.

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

Reference	Significant Deliberations and Changes
Engagement Performance	
Paragraph 24(a) (D→ Paragraph 23)	<ul style="list-style-type: none"> The Fraud TF streamlined the reference to refer to fraud risk factors, rather than its entire definition, because fraud risk factors is a defined term in paragraph 18(b).
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control	
Paragraph 31 (D→ Paragraph 33)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF made changes to the requirement to take into account the process as described in paragraph 19 of ISA 315 (Revised 2019).² The proposed revisions clarify that based on the auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's accounting policies in accordance with ISA 315 (Revised), the auditor reflects on matters that may lead to an increased susceptibility to misstatement due to management bias or other fraud risk factors.
Paragraph 32 (D→ Paragraph 34)	<ul style="list-style-type: none"> Paragraph 32(a)(ii): Based on direction provided by the Board at its December 2024 meeting, the Fraud TF replaced the term "fraud reporting program" with the term "whistleblower program." The Board noted that the term "whistleblower" is a more commonly understood term. However, to mitigate the risk that auditors may inadvertently neglect to apply the requirement when the "whistleblower program" is referred to by another term, the Fraud TF clarified that the requirement also applies to any "other program to report fraud". <i>Note that the Fraud TF has replaced "fraud reporting program" with "whistleblower program" throughout the proposed standard and the ISAs for consistency.</i> Paragraph 32(c)(i): The Fraud TF added "including" to refer to allegations of fraud to align with the construct used throughout the proposed standard that deals with fraud or suspected fraud from management's perspective. The reference to "including allegations of fraud" is not needed when viewed from the auditor's perspective because paragraph A10 clarifies that "allegations of fraud" are treated by the auditor as "suspected fraud".

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

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Reference	Significant Deliberations and Changes
Paragraph 33(b)(ii) (D→ Paragraph 35(b)(ii))	<ul style="list-style-type: none"> The Fraud TF aligned the wording with paragraph 32(c)(ii).
Paragraph 34(b)(iii) (D→ Paragraph 36(b)(iii))	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF expanded the requirement to include inquires of appropriate individuals within the internal audit function about whether they are aware of deficiencies in internal control related to the prevention and detection of fraud. This strengthens the requirement and makes it consistent with the corresponding inquiry of management.
Paragraph 36 (D→ Paragraph 38)	<ul style="list-style-type: none"> The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(d) of the Issues Paper (see Agenda Item 2)
Identifying and Assessing the Risks of Material Misstatement due to Fraud	
Paragraph 40 (D→ Paragraph 42)	<ul style="list-style-type: none"> The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(a) of the Issues Paper (see Agenda Item 2)
Responses to the Assessed Risks of Material Misstatement Due to Fraud	
Paragraph 43 (D→ Paragraph 44)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF reordered the concepts within the paragraph to clarify that incorporating an element of unpredictability is required in all audits, but it does not have to be incorporated into all audit procedures.
Paragraph 50 (D→ Paragraph 51)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF streamlined the requirement to reduce the perceived duplication with paragraph 32 of ISA 540 (Revised)³ and to remove the inconsistency created by adding "significant" before accounting estimates.

³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Reference	Significant Deliberations and Changes
Written Representations	
Paragraph 62(c)(iii) (D→ Paragraph 65(c)(iii))	<ul style="list-style-type: none"> The Fraud TF removed the threshold relating to “others” to enhance the consistency of the requirement with paragraph 33(b)(i) which requires the auditor to inquire of management whether management is aware of <i>any</i> fraud or suspected fraud, including allegations of fraud and that includes any fraud or suspected fraud involving “others.”
Communications with Management and Those Charged with Governance	
Paragraph 64(c) (D→ Paragraph 67)	<ul style="list-style-type: none"> Based on Board Members’ comments, the Fraud TF addressed an inconsistency between the communication requirement in paragraph 64 of proposed ISA 240 (Revised) and the corresponding requirement in paragraph 23 of ISA 250 (Revised).⁴ Specifically, since paragraph 14 of proposed ISA 240 (Revised) treats fraud or suspected fraud as an instance of non-compliance with laws and regulations, the communication requirements between proposed ISA 240 (Revised) and ISA 250 (Revised) should be consistent. To ensure consistency, the Fraud TF introduced into paragraph 64(c) the same reporting threshold as in paragraph 23 of ISA 250 (Revised)—allowing the auditor not to communicate fraud or suspected fraud involving others if it is deemed clearly inconsequential.
Application and Other Explanatory Material	
Introduction	
Paragraph A15 (D→ Paragraph A16)	<ul style="list-style-type: none"> The Fraud TF streamlined the example to emphasize its key point: suspected fraud identified during the audit, including third-party fraud, also constitutes non-compliance with laws or regulations.
Paragraph A15A	<ul style="list-style-type: none"> The Fraud TF introduced this paragraph for the reasons outlined in paragraph 22 of the Issues Paper (see Agenda Item 2).

⁴ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

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Reference	Significant Deliberations and Changes
Paragraph A16 (D→ Paragraph A16A)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF expanded the scope of the application material to refer to the auditor's ethical requirements for non-compliance with laws or regulations more broadly and not limit it to group audit situations. The related footnote which references the IESBA Code⁵ was, in coordination with IESBA staff, also adjusted to align with the broader reference to non-compliance with laws or regulations.
Definitions	
Paragraph A22 (D→ Paragraph A21A)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF: <ul style="list-style-type: none"> Revised the first bullet for better alignment with the concepts in ISA 550.⁶ Changed the example in the second bullet to use a different example to that used in the third bullet. Simplified the third bullet by removing the reference to non-compliance with laws and regulations related to data privacy.
Paragraph A25 (D→ Paragraph A23A)	<ul style="list-style-type: none"> The Fraud TF revised the third bullet to better align with the definition of fraud risk factors.
Professional Skepticism	
Ordering of paragraphs A27–A29 (D→ Paragraph A25–A25B)	<ul style="list-style-type: none"> These application material paragraphs were reordered to flow more logically.
Paragraph A30 (D→ Paragraph A25C)	<ul style="list-style-type: none"> The Fraud TF revised the application material to reduce duplication with paragraphs A28 and A29 which also refer to time pressures.

⁵ International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)

⁶ ISA 550, *Related Parties*

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Reference	Significant Deliberations and Changes
Paragraph A32	<ul style="list-style-type: none"> Based on Board Members' comments, the application material was added to clarify that inconsistencies can arise both within and across groups of individuals.
Paragraph A34 (D→ Paragraph A26)	<ul style="list-style-type: none"> Based on a comment from the PIOB observer, the Fraud TF reordered the sentences to emphasize the auditor's responsibilities under ISA 500.⁷ The previous ordering inadvertently highlighted what the auditor is not required to do, potentially undermining the appropriate exercise of professional skepticism.
Paragraph A35 (D→ Paragraph A28)	<ul style="list-style-type: none"> Updated the first bullet as inquiries may be extended to parties other than management, for example employees.
Engagement Resources	
Paragraph A41 (D→ Paragraph A37)	<ul style="list-style-type: none"> The Fraud TF revised the lead-in sentence to better align with the requirement.
Risk Assessment Procedures and Related Activities	
Paragraph A56 (D→ Paragraph A52)	<ul style="list-style-type: none"> In response to feedback received on ED-240,⁸ the Fraud TF added an example for additional guidance on third-party fraud.
Paragraph A59 (D→ Paragraph A54)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF updated the example to further illustrate how unexpected or inconsistent results identified in an analytical procedure may indicate a risk of material misstatement due to fraud.

⁷ ISA 500, *Audit Evidence*

⁸ Exposure Draft (ED-240): [Proposed International Standard on Auditing 240 \(Revised\), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs.](#)

Reference	Significant Deliberations and Changes
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control	
Paragraph A60 (D→ Paragraph A59)	<ul style="list-style-type: none"> In response to feedback received on ED-240, the Fraud TF provided additional guidance on how an entity's organizational structure may indicate that a fraud risk factor is present.
Paragraph A61 (D→ Paragraph A60)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF removed the link to larger and more complex entities as it inadvertently implied that smaller and less complex entities may have weak oversight.
Paragraph A63 (D→ Paragraph A62)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF included guidance to help auditors think of how they can obtain information about operations in locations that may be susceptible to fraud, or other illegal or unethical acts that may be carried out to facilitate or conceal fraud.
Paragraph A74 (D→ Paragraph A70)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF revised the wording of the third bullet to align more closely to what is required by the fraud or suspected fraud requirements.
Paragraph A98 (D→ Paragraph A95)	<ul style="list-style-type: none"> The Fraud TF removed the reference to "all" journal entries to align with the revisions made to paragraph 50(b) in the December 2024 version of the proposed standard.
Paragraph A103 (D→ Paragraph A99)	<ul style="list-style-type: none"> The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).
Identifying and Assessing the Risks of Material Misstatement due to Fraud	
Paragraph A112 (D→ Paragraph A103E)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF revised the lead-in to the second bullet to better align it with the description.

Reference	Significant Deliberations and Changes
Paragraph A116 (D→ Paragraph A123A)	<ul style="list-style-type: none"> The Fraud TF reworded the application material to better align with the associated requirement. The Fraud TF also believed it is useful to add guidance that describes the impact on the audit engagement when the auditor determines that the risks of management override of controls affect individual assertions and related significant classes of transactions, account balances and disclosures. The Fraud TF also included two examples to further illustrate this point. Also see paragraph 19(c) of the Issues Paper (see Agenda Item 2).
Paragraph A119 (D→ Paragraph A109)	<ul style="list-style-type: none"> In response to feedback received on ED-240, the Fraud TF expanded the list of examples to include an example which illustrates how unnecessarily complex structures give rise to increased risks of undisclosed related parties.
Paragraph A121 (D→ Paragraph A111)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF updated: <ul style="list-style-type: none"> The first example to further explain the basis for the auditor's conclusion that fraud risk factors may not be significant. The second example to remove the risk of introducing a fraud risk factor for the value of the investment and removed the reference to controls, given that the assessment of fraud risk factors should be performed before consideration of controls.
Responses to the Assessed Risks of Material Misstatement Due to Fraud	
Paragraph A125 (D→ Paragraph A115)	<ul style="list-style-type: none"> Based on Board Members' comments, the Fraud TF added that incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures is a matter of professional judgment. This clarifies that the auditor does not have to incorporate unpredictability everywhere in the audit.
Paragraph A127 (D→ Paragraph A117)	<ul style="list-style-type: none"> The Fraud TF updated the application material to align with the changes proposed to paragraph 39(b).
Paragraph A146 (D→ Paragraph A136)	<ul style="list-style-type: none"> The Fraud TF removed the word "all" as fraudulent financial reporting may be achieved by understating or overstating one or more provision or reserve.

Reference	Significant Deliberations and Changes
Fraud or Suspected Fraud	
Paragraph A168 (D→ Paragraph A157A)	<ul style="list-style-type: none"> The Fraud TF removed “of income over expenditure” to remove redundancy and added “reported for the period” to add clarity of what surplus or deficit the paragraph refers to.
Communications with Management and Those Charged with Governance	
Paragraph A196 (D→ Paragraph A185)	<ul style="list-style-type: none"> The Fraud TF revised the application material to align it to the changes in the associated requirement which requires communication of fraud or suspected fraud involving others for matters that are not “clearly inconsequential.”
Appendix 1	<ul style="list-style-type: none"> Added negative media attention on the entity or key members of management as an example of fraud risk factor given its prominence.
Conforming and Consequential Amendments	
ISQM 1⁹	<ul style="list-style-type: none"> Paragraph A135: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).
ISA 220¹⁰	<ul style="list-style-type: none"> Paragraph A99: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).
ISA 260¹¹	<ul style="list-style-type: none"> Paragraph 15: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(d) of the Issues Paper (see Agenda Item 2). Paragraph A12: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the

⁹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹⁰ ISA 220 (Revised), *Quality management for An Audit of Financial Statements*

¹¹ ISA 260 (Revised), *Communication with Those Charged with Governance*

Reference	Significant Deliberations and Changes
	<p>Issues Paper (see Agenda Item 2).</p> <ul style="list-style-type: none"> Paragraph A13: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).
ISA 315 (Revised 2019)	<ul style="list-style-type: none"> Paragraph 12(l)(ii): The second bullet of the definition indicates that a significant risk is an identified risk of material misstatement that is to be treated as a significant risk in accordance with the requirements of other ISAs. Given that proposed ISA 240 (Revised) requires that all risks of material misstatement due to fraud at the assertion level are to be treated as significant risks, the Fraud TF is of the view that the footnote should be added to paragraph 41. Paragraph A183: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2). Paragraph A195: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).
ISA 450¹²	<ul style="list-style-type: none"> Paragraph 5A: In response to feedback received on ED-240, the Fraud TF changed the work effort verb from “determine” to “evaluate.” The Fraud TF noted that this requirement used to be located in extant ISA 240, paragraph 36 and that the work effort verb in extant ISA 240 was “evaluate”. The Fraud TF considered the CUSP Drafting Principles and Guidelines and believes that the verb “evaluate” is more appropriate in this context as using the verb “determining” would impose a disproportionate work effort.
ISA 505¹³	<ul style="list-style-type: none"> Paragraph A21: The Fraud TF aligned this paragraph with the change made to ISA 450, paragraph 5A (see above).
ISA 530 (Revised)¹⁴	<ul style="list-style-type: none"> Paragraph A6: Changed “risks of fraud” to “risks of material misstatement due to fraud” to align with the changes in proposed ISA 240 (Revised).

¹² ISA 450, *Evaluation of Misstatements Identified during the Audit*

¹³ ISA 505, *External Confirmations*

¹⁴ ISA 530, *Audit Sampling*

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Reference	Significant Deliberations and Changes
ISA 540 (Revised)	<ul style="list-style-type: none"> Paragraph A136: The Fraud TF removed the term “significant”, which had been added to the version of proposed conforming and consequential amendments presented to the Board at the December 2024 meeting, to align with the proposed changes to paragraph 50 in proposed ISA 240 (Revised).
ISA 550	<ul style="list-style-type: none"> Paragraph A17: Given the proposed use of the term “whistleblower program (or other program to report fraud)” in proposed ISA 240 (Revised), the reference to “whistle-blowing policies and procedures” was replaced by “whistleblower program (or other program to report fraud).” Paragraph A33: “whistle-blowing” was replaced by “whistleblower” to conform with the convention used in proposed ISA 240 (Revised).
ISA 580¹⁵	<ul style="list-style-type: none"> Appendix 2: Deleted “where the fraud could have a material effect on the financial statements” to align with paragraph 62 in proposed ISA 240 (Revised). Further, changed the wording to “suspected fraud, including allegations of fraud” to align with the construct used throughout the proposed ISA 240 (Revised) that deals with fraud or suspected fraud from management’s perspective.
ISA 600 (Revised)¹⁶	<ul style="list-style-type: none"> Paragraph 28: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(d) of the Issues Paper (see Agenda Item 2). Paragraph 44A: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 26 of the Issues Paper (see Agenda Item 2). Paragraph 45(h): The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 27 of the Issues Paper (see Agenda Item 2). Paragraphs 55 and 59: Replaced “fraud” with “fraud or suspected fraud” to align with the communication requirement in paragraph 54 of the proposed ISA 240 (Revised). Paragraphs 57 and A160: Aligned the communication requirements on fraud or suspected fraud with those charged with governance for group auditor in accordance with paragraph 64 of proposed ISA 240 (Revised).

¹⁵ ISA 580, *Written Representations*

¹⁶ ISA 600 (Revised), *Special Considerations — Audit of Group Financial Statements (Including the Work of Component Auditors)*

Reference	Significant Deliberations and Changes
	<ul style="list-style-type: none"> Paragraph A92: Replaced “fraud” with “fraud or suspected fraud” based on the change in the engagement team discussion requirement in paragraph 32(d)(i) of the proposed ISA 240 (Revised).
ISA 700 (Revised) ¹⁷	<ul style="list-style-type: none"> ISA 700 (Revised) – Paragraph 40(a): Moved <i>“that the auditor identifies during the audit”</i> from the sub-bullet (i) to the lead-in sentence given all the significant findings listed in the sub-bullets (i)-(iii) are relevant to that circumstance. <i>Note that the Fraud TF made this change throughout the ISAs, including the illustrative reports, for consistency.</i> ISA 700 (Revised) – Paragraph 40(c): Deleted “Including Matter Related to Fraud” to further align with the Board’s decision in its September 2024 meeting to remove this from the header of the key audit matter section. <i>Note that the Fraud TF changed the header from “Key Audit Matter Including Matter Related to Fraud” to “Key Audit Matters” throughout the ISAs, including the illustrative reports, for consistency.</i> Illustrative auditor’s reports: In the Auditor’s Responsibilities for the Audit of the Financial Statements section, changed the communications with those charged with governance based on the enhanced communication requirements on fraud or suspected fraud with those charged with governance in accordance with paragraph 64 of proposed ISA 240 (Revised).
ISA 701 ¹⁸	<ul style="list-style-type: none"> Paragraph A8A: Clarified the wording to avoid impression of that there will always be a key audit matter related to fraud. Paragraph A19: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2). Paragraph A21: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).

¹⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

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Reference	Significant Deliberations and Changes
ISA 706¹⁹	<ul style="list-style-type: none"> Paragraph A9: The Fraud TF revised the paragraph to reflect the proposals outlined in paragraph 19(e) of the Issues Paper (see Agenda Item 2).
ISA 800 (Revised)²⁰	<ul style="list-style-type: none"> Appendix, illustrations 1, 2 and 3: The Fraud TF noted that no conforming amendments were proposed in ED-240 for these illustrative auditor's reports and is of the view that the communications with TCWG should be updated to align with ISA 700 paragraph 40(a).
ISA 805 (Revised)²¹	<ul style="list-style-type: none"> Appendix 2, illustrations 1, 2 and 3: The Fraud TF noted that no conforming amendments were proposed in ED-240 for these illustrative auditor's reports and is of the view that the communications with TCWG should be updated to align with ISA 700 paragraph 40(a).
ISRE 2400²²	<ul style="list-style-type: none"> Paragraph 48: Aligned the requirement with proposed ISA 240 (Revised) which requires the auditor to inquire of management about fraud or suspected fraud, including allegations of fraud. Further, added "identified or suspected" before non-compliance with provisions of laws and regulation, to enhance the alignment with ISA 250 (Revised). Paragraph 62(d): Replaced "significant facts relating to any" with "its knowledge of any" to better align with the conforming amendment made to paragraph 48(d) of ISRE 2400.

¹⁹ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

²⁰ ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

²¹ ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

²² International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*