

# Agenda Item 3-A (REVISED (3))

## REVISION OF ISA 240 AND THE CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER RELEVANT ISAs TO ENHANCE OR CLARIFY THE AUDITOR'S RESPONSIBILITIES ON FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

*The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group (CAG), which provides public interest input into the development of the standards and guidance.*

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

### I. Subject

1. This project proposal addresses the revision of International Standard on Auditing (ISA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and the conforming and consequential amendments to other relevant ISAs, to enhance or clarify the auditor's responsibilities on fraud in an audit of financial statements.

### II. Introduction

2. High quality audits support the smooth functioning of capital markets, overall economic performance and financial stability. The public interest is best served when participants in the financial reporting system have confidence in audits. However, corporate failures and scandals across the globe in recent years have brought the topic of fraud to the forefront and led to stakeholder questions around the role and responsibilities of the auditor on fraud in an audit of financial statements.
3. As described in the IAASB's [Strategy for 2020-2023](#), the IAASB is focused on prioritizing emerging public interest challenges and, as such, commenced information-gathering activities on fraud in an audit of financial statements in early 2020.
4. The objective of the information gathering and research activities on fraud was to further consider the issues and challenges in applying ISA 240 in light of the changing environment, jurisdictional developments and changing public expectations. **Appendix A** to this project proposal describes the information-gathering and research activities performed, including the development of the Discussion Paper (DP), [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](#), which was published in September 2020 for consultation.

5. The timeline below sets out the activities performed in progressing the information gathering and research activities on fraud and the planned milestones for this project proposal, as guided by the processes and procedures in the IAASB's [Framework for Activities](#).



6. At the April, June and July 2021 IAASB meetings, the IAASB discussed the responses to the DP and possible actions to address the issues that had been identified. These possible actions included one or more of the following: (a) standard setting; (b) development of non-authoritative guidance; or (c) other related activities (including activities of an 'educational nature' or action for others in the financial reporting ecosystem<sup>1</sup>).<sup>2</sup> These discussions informed the development of this project proposal.
7. The IAASB recognizes the importance of the role of its auditing standards in the financial reporting ecosystem. Therefore, this project proposal is focused on the specific standard-setting actions aimed

<sup>1</sup> The 'financial reporting ecosystem' includes those involved in the preparation, approval, audit, analysis and use of financial reports, for example, the entity and its management (i.e., preparers), Boards and audit committees, external auditors, governments, regulators, professional bodies, standard-setters, investors, analysts, lenders, and other financial statement users). Each participant of this ecosystem plays a unique and essential role that contributes towards high quality financial reporting.

<sup>2</sup> There were matters discussed with the Board where no further action has been proposed within this project proposal, including no further explicit consideration of ~~the 'expectation gap' and~~ suspicious mindset, and no changes to the definition of fraud, and ~~for~~ engagement quality reviews.

at enabling consistent and improved auditor behavior. Specifically, the project will seek to clarify the auditor's responsibilities and enhance the robustness of the required auditor's procedures and reporting on fraud in an audit of financial statements. In addition to revisions to ISA 240, the IAASB anticipates making related conforming and consequential amendments to other relevant ISAs, considering the important interaction between ISA 240 and the other ISAs (because the auditor's responsibilities relating to fraud in an audit of financial statements build on and supplement the principles of, and the procedures required by, other ISAs). The IAASB may also consider other actions as necessary and as resources are available, including encouraging complementary action by others (such as those charged with governance (TCWG), regulators, firms, etc.) that would address the broader public interest issues on fraud in an audit of financial statements.

8. The IAASB also acknowledges the view of respondents to the DP that narrowing the expectation gap will involve a collaborative, multi-stakeholder solution by all participants in the financial reporting ecosystem. The expectation gap will not solely be narrowed through standard setting by the IAASB. As a complement to its standard-setting actions, the IAASB therefore must interact with key stakeholders to discuss and understand their concerns and expectations and take other actions as needed.
9. The IAASB leveraged the Public Interest Framework (PIF) published by the Monitoring Group in July 2020 (as part of their report "[Strengthening the International Audit and Ethics Standard-Setting System](#)") in developing this project proposal to articulate the public interest responsiveness of the project. Among other things the PIF sets out the considerations essential to the judgments needed in the development of standards. Although the PIF is not yet required to be implemented by the IAASB, it is likely this fraud project will be in progress and completed when the PIF is implemented. The Fraud Working Group therefore used those elements of the PIF deemed applicable and relevant to revising and developing auditing standards tailored as appropriate for the project on fraud as the basis for a restructured project proposal format, while still adhering to the due process requirements currently in place. However, as implementation of the PIF is still in the initial planning phase, there may be elements of the PIF that are relevant to standard setting that will be further developed for the IAASB's work more broadly in the future.
10. Throughout the duration of the project on fraud, the IAASB will benefit from the independent, direct oversight by the PIOB, and will remain transparent and adhere to the IAASB's agreed strategies, due process, and the need to be responsive to the public interest.
11. This project proposal describes the project objectives that support the public interest, as well as the project scope for the work that will be undertaken in the project.

### III. Project Objectives that Support the Public Interest<sup>3</sup>

12. Taking into account the stakeholders whose interests are to be served through a project on fraud in an audit of financial statements (see **Section IV**), the project objectives are to:
  - (a) Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.

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<sup>3</sup> See the PIF's section on "What interests need to be served?" (on page 21 of the Monitoring Group's report, "[Strengthening the International Audit and Ethics Standard-Setting System](#)").

- (b) 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.
  - (c) Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures.
  - (d) Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with TCWG and the reporting requirements in ISA 240 and other relevant ISAs.
13. The IAASB has the view that these project objectives capture an effective response to stakeholders' needs, that have been identified in the information gathering and research process undertaken, and will contribute to the continued relevance and credibility of the ISAs in supporting quality financial reporting. It is recognized that this project is focused on standard setting through revising ISA 240 and conforming and consequential amendments to other relevant ISAs. The IAASB's standard-setting actions alone are likely to be insufficient in addressing the expectation gap. Therefore, in addition to standard-setting, the IAASB will also coordinate with other relevant stakeholders, as appropriate, to address the broad range of concerns and expectations expressed in our information gathering and research phase (see *other actions* in paragraphs 29–31).

#### IV. Stakeholders Impacted by a Project on Fraud

14. This project will aim to serve the interests of all relevant stakeholders by addressing key issues identified by the IAASB's stakeholders related to ISA 240.
15. The five broad stakeholder groups,<sup>4</sup> who will be impacted by a project to enhance and clarify ISA 240 include:
- *Users of financial statements* (“the users”) – mainly investors, lenders, and other creditors, who rely on the audited financial statements to make resource allocation decisions.
  - The *profession* – all auditors and assurance providers, and other professional accountants in public practice and business who apply the standards.
  - Those in charge of *adoption, implementation and enforcement* of the standards as well as monitoring of the capital markets who rely on such standards– including national standard setters, regulators and audit inspectors, market authorities, public sector bodies, and professional accountancy organizations.
  - *Preparers* – management and professional accountants in business, for entities of all sizes, in either the public or private sectors, as well as those charged with governance (e.g., audit committees who oversee the audit process), the latter group being relevant to addressing the information asymmetries among different parties involved in the functioning of companies, and who also provide the basis for the auditor's work.
  - *Other users* – the reliability of financial and non-financial information affects a very wide range of interests in society, including consumers, taxpayers, employees, competition and prudential

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<sup>4</sup> These five broad stakeholder groups are explained in the PIF's section on “For whom are standards developed?” (on pages 20-21 of the Monitoring Group's report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

authorities, central banks and bodies in charge of financial stability oversight, and those granting public contracts.”

16. In line with the PIF,<sup>5</sup> standard setting that is in the public interest requires a process that elicits views from all stakeholders, with a focus on assessing the merits of the various stakeholder views, irrespective of whether the views are a majority or a minority. The public interest of standards cannot be ensured through a mere aggregation of all stakeholder interests, rather the public interest requires weighing and balancing all stakeholder views.
17. In order to address the public interest as contemplated by the PIF, and to achieve the objectives of this project proposal, the project on fraud will:
  - (a) Consider all stakeholder input and identify the different stakeholder interests that affect the overall objectives that will achieve the public interest;
  - (b) Appropriately weigh the input in terms of the public interest impact of the relative stakeholder interests;<sup>6</sup> and
  - (c) Appropriately balance alternative outcomes in terms of the expected responsiveness to the public interest.<sup>7</sup>

Although the PIF sets out a framework for how the public interest will be addressed, the approach to the consideration of stakeholder interests and how they are weighed is largely consistent with how stakeholder input is currently considered on IAASB projects (i.e., judgment is applied).

## V. Key Issues Identified that Will be Addressed by a Project on Fraud<sup>8</sup>

18. The needs of the IAASB's stakeholders, which embody the public interest for this project, have been identified and are described in this project proposal as the “key issues.”
19. These key issues have been identified through the extensive information gathering and research activities described in **Section II** (and **Appendix A**), and have been discussed with the IAASB in 2020 and 2021. The following key issues recognize the input of stakeholders and the resulting call to strengthen, enhance and clarify ISA 240:
  - (a) *Role and responsibilities of the auditor on fraud in an audit of financial statements*
    - (i) The introductory paragraphs in ISA 240 explaining the inherent limitations of an audit can be misleading and result in misunderstanding of the auditor's obligations.
    - (ii) A need has been expressed to clarify and emphasize the auditor's responsibilities regarding fraud in an audit of financial statements.

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<sup>5</sup> See the PIF's sections on “For whom are standards developed?” and “How is the public interest responsiveness of a standard assessed?” (on pages 20-21 and 23-24, respectively, of the Monitoring Group's report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

<sup>6</sup> This project will recognize the importance of all stakeholders but will focus on users of audited financial statements. See the PIF's section on “For whom are standards developed?” (on pages 20-21 of the Monitoring Group's report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

<sup>7</sup> See the PIF's section on “How are the interests of users best served?” (on pages 21-22 of the Monitoring Group's report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

<sup>8</sup> See Appendix A, *Basis for Project Proposal on Fraud*.

- (iii) There are terms and concepts associated with fraud, such as bribery, corruption, and money laundering, that are not directly addressed in the definition of fraud, and it has been noted that it is therefore unclear whether the auditor's procedures extend to include work related to such terms and concepts.
- (iv) Calls for the auditor undertaking more forensic type procedures, or the need for forensic specialists on all, or some, audits have been made due to the increasing use of forensic procedures on audits, including by forensic specialists.
- (b) *Identifying and assessing risks of material misstatement due to fraud*
  - (i) The auditor's risk identification and assessment process as it relates to fraud should be more robust (including that many aspects of the enhanced risk identification and assessment procedures in ISA 315 (Revised 2019)<sup>9</sup> have not been reflected in ISA 240).
  - (ii) The engagement team discussion is not sufficiently robust with respect to the auditor's considerations of fraud throughout the audit.
- (c) *Responses to the assessed risks of material misstatement due to fraud*
  - (i) The auditor's responses to the assessed risks of material misstatement due to fraud should be more robust.
  - (ii) The auditor is inappropriately relying on written representations provided by management addressing fraud in the entity (i.e., clarity is needed that written representations do not relieve the auditor of the responsibility to ~~obtain sufficient appropriate audit evidence about~~ appropriately respond to the assessed risks of material misstatement due to fraud).
- (d) *Use of technology*
  - (i) ISA 240 needs to consider the impact of the entity's ability to use technology to enable ~~the execution of~~ fraudulent activity on the auditor's procedures.
  - (ii) ISA 240 needs to be modernized for the auditor's considerations about how new and evolving technologies, and current practice, impacts the auditor's procedures when considering fraud.
- (e) *Relationship between and linkage of ISA 240 with respect to ISA 250 (Revised)<sup>10</sup> and the other ISAs*
  - (i) The relationship between ISA 240 and ISA 250 (Revised) is unclear, i.e., more clarity is needed if a fraud is identified or suspected, whether the auditor is performing procedures to comply with ISA 240 or ISA 250 (Revised).
  - (ii) The relationship between ISA 240 and other ISAs (e.g., standards addressing quality management, written representations, and external confirmations) should be clarified to promote an integrated risk-based approach with respect to fraud.

<sup>9</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>10</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

- (f) *Fraud Specific fraud-related audit procedures*
- (i) Journal entries – uncertainty about how to select which journal entries to test that has resulted in inconsistent application.
  - (ii) Presumption of fraud risk in revenue recognition – it is not clear when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition, which has resulted in inconsistent application.
  - (iii) Presumption of fraud risk in other account balances – stakeholders have questioned whether the presumption of fraud risk should be extended to include other account balances, such as goodwill.
  - (iv) Analytical procedures – analytical procedures at the planning and completion stages of the audit are not robust enough to support the auditor's consideration of the risk of fraud and the planned audit response (nature, timing, extent of audit procedures).
  - (v) Fraud is identified or suspected – lack of clarity around the auditor's response in such circumstances.
  - (vi) Unpredictability of audit procedures – unclear as to the required actions or types of fraud-related procedures to be undertaken by the auditor.
  - (vii) Non-material fraud – clarity is needed with respect to the auditor's responsibilities and whether more should be done when a possible non-material fraud is identified or suspected.
  - (viii) Third party fraud – clarity is needed around the auditor's actions with respect to third party fraud.
  - (ix) Audit documentation – clarity is needed on what needs to be documented for fraud when identifying and assessing the risk of material misstatement, performing audit procedures and concluding.
  - (x) External confirmations – clarity is needed as to whether the external confirmation process, as relevant to the auditor's considerations on fraud, should be more robust.
- (g) *Professional skepticism*
- (i) The appropriate exercise of professional skepticism needs to be reinforced, including reminding the auditor of the importance of remaining alert to conditions that may indicate possible fraud and maintaining professional skepticism throughout the audit.
- (h) *Transparency on the auditor's fraud-related procedures*
- (i) The required communications with TCWG on fraud considerations may not be sufficiently robust in the current environment, including that such communications relating to fraud matters are not presently explicitly required throughout the audit.
  - (ii) The auditor's report *is* may not *be* transparent enough about the auditor's fraud-related responsibilities and procedures.

The additional clarification of specific areas of focus as noted by the stakeholders under each of the key issues described above will be addressed by the IAASB through standard setting, development

of non-authoritative guidance or other actions, as outlined in the proposed actions in paragraphs 25 and 29-31, respectively.

## VI. Scope of the Project on Fraud

20. The IAASB is committed to playing its role to instill confidence in financial reporting through activities within its remit, including revising, through strengthening, enhancing and clarifying, standards as needed, developing non-authoritative guidance, as well as outreach and continued dialogue to encourage action by others in the financial reporting ecosystem who also have a role to play.
21. It is intended that a project by the IAASB on the auditor's considerations on fraud will contribute to continued trust in the financial reporting process by serving the needs of those stakeholders described in paragraph 15 above through addressing the key issues identified (as explained in paragraph 19). The table below summarizes the proposed actions to address the key issues identified. Each of the proposed actions described in this section correspond to the key issues identified (described in **Section V** above).
22. The proposed actions to address the key issues identified include:
  - (a) Standard Setting (**S**) – Revising, through enhancing or clarifying, ISA 240 and the conforming and consequential amendments to other relevant ISAs.<sup>11</sup>
  - (b) Non-Authoritative Guidance (**NAG**) – Developing supporting materials that are non-authoritative (i.e., outside of the ISAs).<sup>12</sup>
  - (c) Other Actions – Initiatives of an educational nature or other outreach where within the remit of the IAASB, and engagement with others (including continued dialogue and engagement with others in the financial reporting ecosystem on issues that relate to actions that are not within or solely within the IAASB's remit).

### *Standard Setting and Non-Authoritative Guidance*

23. Without pre-judging any matters that the Fraud Task Force may bring to the IAASB for discussion in the project, the table below includes a description of the proposed actions through standard setting and the development of non-authoritative guidance to address the key issues identified in **Section V** above. The proposed actions set out below to address the identified key issues are intended to provide a roadmap for the IAASB's actions, however in developing changes, the nature or extent of the actions needed may vary as the revisions to ISA 240 are developed.

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<sup>11</sup> (**S**) addresses requirements or application material in ISA 240 (unless otherwise indicated such as the introductory paragraphs). This project proposal also recognizes that as these proposed actions are executed, the Fraud Task Force's understanding about issues may evolve, requiring, for example, that a proposed action that was focused on application material may need to be expanded to also address a requirement(s). Proposed standard-setting actions are the focus of the project. The timeline for the development of the revisions is set out in paragraph 35.

<sup>12</sup> (**NAG**) includes non-authoritative support material as contemplated in Component IV(B) of the IAASB's [Framework for Activities](#). This is in addition to any first-time implementation guide that would be issued after the revision of ISA 240 and is targeted to address the relevant topic (i.e., Frequently Asked Questions (FAQs) or diagrams / flow-charts or similar in nature). Proposed actions for the development of non-authoritative guidance shaded in light gray in the table in paragraph 25 indicate a lower order of prioritization relative to the proposed standard-setting actions (which are the focus of this project), and for which the timing will be dependent on the need for such guidance and the resources available at that time to develop the material. The possible timing for the development of non-authoritative guidance is set out in paragraph 35.

24. The IAASB's remit is to develop high-quality auditing standards, and the focus of the project, as set out in the table below, is on standard-setting activities. However, the IAASB also recognizes the role of others in the financial reporting ecosystem and the importance of encouraging action by others too. Other actions that form part of this project proposal are explained below the table.
25. The proposed actions within the scope of a project to revise ISA 240 include:

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
<b>A. Project Objective: Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.</b>				
1	<i>Role and responsibilities of the auditor on fraud in an audit of financial statements</i>	X		<p><b>Introductory Paragraphs in ISA 240 – Emphasis on the Auditor's Responsibilities</b></p> <p><i>Enhance and clarify the introductory paragraphs in ISA 240 to emphasize the auditor's responsibilities regarding fraud, including:</i></p> <ul style="list-style-type: none"> <li>• Considering changes and enhancements made by others in different jurisdictions in their equivalent of ISA 240 to reduce the ambiguity between the inherent limitations of an audit and the auditor's responsibilities for fraud in an audit of financial statements.</li> <li>• Considering whether to provide context for the auditor's responsibilities by explaining the responsibilities of others in the financial reporting ecosystem (relevant to the financial statement audit) within the introductory paragraphs.</li> <li>• Considering whether the auditor's responsibilities should be placed prior to the description of inherent limitations of an audit.</li> </ul>
2		X		<p><b>Application Material – Definition of Fraud</b></p> <p><i>Enhance application material to clarify how concepts such as bribery and corruption, and money laundering, relate to the definition of fraud for purposes of an audit of financial statements, including consideration of the most appropriate standard for this application material (i.e., ISA 240 or ISA 250 (Revised)).</i></p>

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
3		X		<p><b>Requirements and Application Material – Specialized Skills</b></p> <p><i>Consider enhancing requirements and application material in ISA 240 on the need for specialized skills (including forensic skills):</i></p> <ul style="list-style-type: none"> <li>• Consider a new requirement and enhanced application material for those circumstances when it is appropriate for the auditor to “consider the need for specialized skills, including forensic skills” to assist with audit procedures, such as: <ul style="list-style-type: none"> <li>○ When performing risk identification and assessment. In doing so, consider how this links to the revised requirements in ISA 220 (Revised)<sup>13</sup> for adequate resources for the engagement.</li> <li>○ When there is identified or suspected fraud.</li> </ul> </li> <li>• Consider how scalability of a new requirement can be achieved by taking into the account the nature and circumstances of <u>all-entities auditors</u> to have access to such specialized skills, in particular, <u>auditors of</u> less complex entities (LCEs).</li> <li>• Consider how to describe “forensic skills,” in light of comments that this term is not commonly understood (i.e., clarify what may qualify as forensic skills).</li> <li>• Consider changes made by others in different jurisdictions relating to the use of specialized skills.</li> </ul>
<p><b>B. Project Objective: Promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary.</b></p>				
4	<i>Identifying and assessing</i>	X		<b>Requirements and Application Material –</b>

<sup>13</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
	<i>risks of material misstatement due to fraud</i>			<p><b>Identifying and Assessing Risks of Material Misstatement</b></p> <p><i>Enhance and clarify requirements and application material in ISA 240 to incorporate recent changes in ISA 315 (Revised 2019) to make fraud risk identification and assessment more robust, including:</i></p> <ul style="list-style-type: none"> <li>• Developing explicit fraud considerations in risk assessment procedures</li> <li>• Clarifying that risk assessment procedures in ISA 240 are not separate from those in ISA 315 (Revised 2019).</li> <li>• Enhancing the requirements to consider information obtained from acceptance and continuance when obtaining an understanding of the entity and its environment, etc.</li> <li>• Describing the auditor's specific considerations relating to fraud when obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control in accordance with ISA 315 (Revised 2019), with an emphasis on, for example: <ul style="list-style-type: none"> <li>○ The entity's corporate culture.</li> <li>○ Entity's key performance indicators (KPIs).</li> <li>○ Employee performance measures and incentive compensation policies.</li> <li>○ The entity's risk assessment process.</li> <li>○ Specific control activities to prevent and detect fraud.</li> <li>○ Other information, e.g., matters the auditor is aware of based on the performance of procedures in accordance with ISA 720 (Revised)<sup>14</sup> or the auditor's knowledge obtained throughout the audit.</li> </ul> </li> </ul>

<sup>14</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
				<ul style="list-style-type: none"> <li>Updating the fraud risk factors currently included in the Appendix to ISA 240 and considering whether the fraud risk factors should rather form part of the application material.</li> <li>Emphasizing in ISA 240 how fraud risk factors influence the identified risks of material misstatement due to fraud at the assertion level, and therefore in designing a more precise response to such a fraud risk.</li> <li>Considering examples in ISA 240 to illustrate the scalability of the requirements, for example by providing examples that are more relevant to LCEs.</li> </ul>
5		X		<p><b>Requirements and Application Material – Engagement Team Discussion</b></p> <p><i>Enhance requirements and application material in ISA 240 to make the engagement team discussion on fraud considerations more robust, including</i></p> <ul style="list-style-type: none"> <li>Enhancing requirements to require specific topics to be included during the engagement team discussion.</li> <li>Enhancing application material in ISA 240 to explain when it may be beneficial to hold further engagement team discussion(s).</li> <li>Enhancing application material in ISA 240 for when it may be beneficial for specialists (including internal or external fraud specialists) to attend engagement team discussion(s).</li> </ul>

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
6			X	<p><b>Development of Non-Authoritative Guidance</b></p> <p><b>Key Performance Indicators</b></p> <p><i>Develop non-authoritative guidance around how auditors can use common KPIs measuring an entity's performance or success and compare them to common targets and objectives or industry peers to better inform auditors when performing procedures, such as fraud risk assessment procedures and journal entry testing.</i></p> <p><b>Inquiries of Management and Others Within the Entity Tailored for Fraud Considerations</b></p> <p><i>Develop non-authoritative guidance on inquiries of management and others within the entity tailored for fraud considerations to help auditors ask the right questions, which will better inform auditors when performing procedures, such as the engagement team discussion and analytical procedures.</i></p>
7	<i>Responses to the assessed risks of material misstatement due to fraud</i>	X		<p><b>Requirements and Application Material – Responses to the Assessed Risks of Material Misstatement</b></p> <p><i>Enhance the requirements and application material in ISA 240 to strengthen the auditor's responses to assessed risks of material misstatement due to fraud, as necessary in light of the proposed actions addressing fraud risk identification and assessment and other fraud-related procedures, including:</i></p> <ul style="list-style-type: none"> <li>Considering a stand-back requirement in ISA 240 to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud.</li> </ul>

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
				<ul style="list-style-type: none"> <li>Enhancing application material in ISA 240 to encourage emphasis on management bias when considering the appropriateness of accounting estimates from a fraud perspective as well as improving the link to the procedures required in ISA 540 (Revised).<sup>15</sup></li> </ul>
8		X		<p><b>Requirements and Application Material – Written Representations from Management</b></p> <p><i>Consider enhancing and clarifying the requirements and application material for written representations from management <del>by extending the existing written representations on fraud in ISA 240.</del></i></p>
9	<i>Use of technology</i>	X		<p><b>Application Material – Technology Considerations</b></p> <p><i>Enhance application material in ISA 240 to reflect and describe the use of technology to:</i></p> <ul style="list-style-type: none"> <li><i>Enable <del>the execution of</del> fraudulent activity (including cybercrime).</i></li> <li><i>Perform fraud-related procedures by auditors.</i></li> </ul> <p><i>In doing so, remaining mindful of maintaining a balance of not ‘dating’ the standard by referring to technologies that may change and evolve, and consulting with a technology expert(s) as needed.</i></p>
10			X	<p><b>Development of Non-Authoritative Guidance – Technology Considerations in the Current Environment</b></p> <p><i>Develop, as needed, further non-authoritative guidance that supports the application of ISA 240 in light of technologies in the current environment.</i></p>

<sup>15</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)	
		S	NAG		
11	<i>Relationship between and linkage of ISA 240 with respect to ISA 250 (Revised) and the other ISAs</i>	X		<p><b>Introductory Paragraphs and Application Material in ISA 240 – Relationship Between ISA 240 and ISA 250 (Revised), and Other ISAs</b></p> <p><i>Enhance the introductory paragraphs and consider application material in ISA 240 to clarify the relationship between ISA 240 and ISA 250 (Revised), including:</i></p> <ul style="list-style-type: none"> <li>Highlighting the interrelationship between fraud and non-compliance with laws and regulations (i.e., fraud usually constitutes an illegal act and therefore, also falls under ISA 250 (Revised)).</li> </ul> <p><i>Enhance, within the standards, the linkages between ISA 240 and the other ISAs with cross-referencing as appropriate.</i></p>	
12			X	<p><b>Development of Non-Authoritative Guidance – Relationship Between ISA 240 and ISA 250 (Revised)</b></p> <p><i>Develop non-authoritative guidance that guides auditors in navigating the required actions to be taken when responding to identified or suspected fraud under ISA 240, non-compliance under ISA 250 (Revised), and NOCLAR<sup>16</sup> under the IESBA Code.<sup>17</sup></i></p>	
13				X	<p><b>Development of Non-Authoritative Guidance – Linkages Between ISAs</b></p> <p><i>Develop non-authoritative guidance that illustrates how ISA 240 should be applied in conjunction with the full suite of ISAs.</i></p>
14		<del>Fraud</del> <i>Specific fraud-related audit procedures</i>	X		<p><b>Requirements and Application Material – Journal Entries</b></p> <p><i>Clarify the requirements and application material in ISA 240 on the approach to testing journal entries, including:</i></p> <ul style="list-style-type: none"> <li>Considering enhancing requirements in ISA 240 to:</li> </ul>

<sup>16</sup> Non-compliance with laws and regulations (NOCLAR)

<sup>17</sup> The International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
				<ul style="list-style-type: none"> <li>○ Clarify that the auditor's risk assessment procedures performed as part of ISA 315 (Revised 2019) for controls over journal entries are also relevant to the auditor's decisions on journal entry testing in ISA 240.</li> <li>○ Take account of the impact of technology when testing journal entries.</li> <li>○ Address the extent of testing of journal entries to respond to identified risks.</li> <li>● Enhancing application material to: <ul style="list-style-type: none"> <li>○ Clarify what the auditor's objectives are when testing journal entries, and explain how auditors may determine the nature, timing and extent of the auditor's procedures for journal entry testing.</li> <li>○ Consider the impact of any proposed changes being made to ISA 500<sup>18</sup> (e.g., obtaining audit evidence about the completeness of the information used to test journal entries).</li> </ul> </li> </ul>
15		X		<p><b>Requirements and Application Material – Presumption of Fraud Risk in Revenue Recognition</b></p> <p><i>Revise requirements and enhance application material in ISA 240 to clarify how performing a robust risk assessment is critical in determining whether or not the presumption of fraud risk in revenue recognition is applicable, including:</i></p> <ul style="list-style-type: none"> <li>● Revising the requirement in ISA 240 to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment.</li> <li>● Enhancing the application material in ISA 240 to: <ul style="list-style-type: none"> <li>○ Highlight other account balances that</li> </ul> </li> </ul>

<sup>18</sup> ISA 500, *Audit Evidence*

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
				<p>may be particularly susceptible to material misstatement due to fraud (such as goodwill).</p> <ul style="list-style-type: none"> <li>○ Clarify when it is inappropriate to rebut the presumption of risks of fraud in revenue recognition (shifting away from clarifying when it may be appropriate to rebut the presumption of risk of fraud in revenue recognition).</li> <li>○ Describe public sector considerations.</li> </ul>
16		X		<p><b>Application Material – Analytical Procedures</b></p> <p><i>Consider enhancing and clarifying the application material in ISA 240 to emphasize the link to ISA 315 (Revised 2019) and ISA 520<sup>19</sup> with respect to analytical procedures at the planning and completion stages of the audit and how such procedures can be effectively used to consider the possibility of fraud.</i></p>
17		X		<p><b>Requirements and Application Material – Fraud Is Identified or Suspected</b></p> <p><i>Designate a separate section in ISA 240 for required audit procedures when fraud is identified or suspected, including:</i></p> <ul style="list-style-type: none"> <li>• Developing new requirements, relocating existing requirements, or elevating existing application material to requirements.</li> <li>• Enhancing application material as needed.</li> </ul>
18		X		<p><b>Application Material – Unpredictability of Audit Procedures</b></p> <p><i>Enhance or clarify application material in ISA 240 on how to design unpredictable audit procedures, including providing examples of the types of procedures that can be used by the auditor, and how such procedures can be scalable.</i></p>

<sup>19</sup> ISA 520, *Analytical Procedures*

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
19		X		<p><b>Introductory Paragraphs and Application Material in ISA 240 – Non-Material Fraud</b></p> <p><i>Enhance the introductory paragraphs and consider application material in ISA 240 to describe the auditor's responsibilities when non-material fraud is identified or suspected (e.g., that more work is required to conclude that it is a non-material fraud, taking into account the quantitative and qualitative characteristics of a possible misstatement).</i></p>
20		X		<p><b>Application Material – Third Party Fraud</b></p> <p><i>Enhance application material in ISA 240 to determine the auditor's actions when third party fraud is identified or suspected that may give rise to risks of material misstatement due to fraud.</i></p>
21		X		<p><b>Requirements and Application Material – Audit Documentation</b></p> <p><i>Consider the need to enhance or expand the specific documentation requirements in ISA 240, and application material, as appropriate, once the other changes within the standard have been developed (as such changes may necessitate new or revised specific documentation requirements and guidance).</i></p>
22		X		<p><b>Application Material – External Confirmations</b></p> <p><i>Consider enhancing application material in ISA 240 related to fraud considerations for external confirmation procedures (e.g., when considering third party fraud), including:</i></p> <ul style="list-style-type: none"> <li>• Modernizing ISA 240 for current practice and developments in technology, including technology used in practice for external confirmations.</li> <li>• Considering the impacts of revisions to ISA 500 on ISA 240 with respect to audit evidence obtained from the external confirmation process.</li> <li>• Revising the existing guidance when there are non-responses.</li> </ul>

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
				<ul style="list-style-type: none"> <li>Emphasizing the usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud.</li> </ul>
23			X	<p><b>Development of Non-Authoritative Guidance – Presumption of Fraud Risk in Revenue Recognition</b></p> <p><i>Develop non-authoritative guidance to clarify considerations about potential fraud risks/risk factors for specific industries when addressing the presumption of fraud risk in revenue recognition, after considering changes made to requirements and application material in ISA 240.</i></p>
24			X	<p><b>Development of Non-Authoritative Guidance – Using Automated Tools and Techniques to Perform Analytical Procedures</b></p> <p><i>Develop non-authoritative guidance, with input and support from the Technology Consultation Group, to highlight how analytics may be used to help target fraud procedures and identify anomalies that should be investigated.</i></p>
<p><b>C. Project Objective: Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures.</b></p>				
25	<i>Professional skepticism</i>	X		<p><b>Requirements and Application Material – Professional Skepticism</b></p> <p><i>Enhance requirements and application material in ISA 240 to reinforce more robust exercise of professional skepticism when performing procedures related to fraud, including:</i></p> <ul style="list-style-type: none"> <li>Enhancing requirements and application material in ISA 240 for the auditor to design and perform procedures that is not biased towards obtaining audit evidence that may be corroborative or towards excluding evidence that may be contradictory.</li> <li>Explaining the 'ramp up' of procedures when fraud is identified or suspected in the application material.</li> </ul>

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
26			X	<p><b>Development of Non-Authoritative Guidance – Professional Skepticism</b></p> <p><i>Develop non-authoritative guidance to illustrate and give some practical examples of professional skepticism when “ramping up” procedures when a fraud is identified or suspected.</i></p>
<p><b>D. Project Objective: Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with TCWG and the reporting requirements in ISA 240 and other relevant ISAs.</b></p>				
27	<p><i>Transparency on the auditor's fraud-related procedures</i></p>	X		<p><b>Requirements and Application Material – Transparency in the Required Communications with TCWG and in the Auditor's Report</b></p> <ul style="list-style-type: none"> <li>• <i>Enhance requirements and application material in ISA 240 to strengthen required communications with TCWG, including:</i> <ul style="list-style-type: none"> <li>○ Enhancing the requirements in ISA 240 for specific discussions with TCWG about the entity's risks of material misstatement due to fraud and to encourage more appropriate two-way communication. Enhancements could include, for example, explicit discussions about: <ul style="list-style-type: none"> <li>- Susceptibilities to misstatement due to management bias, and corroborating inquiries of management with TCWG.</li> <li>- The auditor's evaluation of the entity's components of internal control (when performing risk assessment procedures in accordance with ISA 315 (Revised 2019)).</li> </ul> </li> <li>○ <del>Requiring</del> <b>Enhancing the requirements</b>, in ISA 240, <del>for that</del> the auditor <b>to</b> assess whether the remediation measures taken by management and TCWG for identified or suspected fraud are appropriate.</li> </ul> </li> </ul>

Ref.	Key Issue(s) Identified (See paragraph 19)	Proposed Action(s)		Details of Proposed Action(s)
		S	NAG	
				<ul style="list-style-type: none"> <li>○ Enhancing the requirements in ISA 240 to emphasize the ongoing nature of communications with TCWG about fraud throughout the audit.</li> <li>○ Clarifying in the application material of ISA 240 that effective participation by TCWG is influenced by their independence from management and their ability to objectively evaluate the actions of management.</li> <li>● <i>Explore<sup>20</sup>revisions to requirements and enhancements to application material to determine the need for more transparency in the auditor's report describing fraud-related matters, and if needed, how this may be done, including:</i> <ul style="list-style-type: none"> <li>○ Exploring what changes may be needed to better describe the auditor's responsibilities and procedures related to fraud in an audit of financial statements, including:                             <ul style="list-style-type: none"> <li>- Additional outreach with investor groups as well as other relevant stakeholders about the need for more transparency in the auditor's report, and how this can be done.</li> <li>- Consideration of changes made by others in different jurisdictions.</li> </ul> </li> <li>○ Considering revisions to clarify the interaction of key audit matters and fraud-related matters.</li> </ul> </li> </ul>

26. The PIF sets out the framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. In explaining how the stakeholders' needs can be served, the PIF sets out qualitative characteristics to assess a project's responsiveness to the public

<sup>20</sup> The term "explore" is used here because this is an area where significant mixed views were expressed by stakeholders and during Board deliberations on the need for enhanced transparency in the auditor's report and will require further consideration by the Fraud Task Force and the Board before possible actions can be proposed.

interest.<sup>21</sup> Such qualitative characteristics include characteristics relevant to the judgments needed in the development of standards and those applicable to standard-setting more broadly. In developing and revising principles-based requirements and application material in revised ISA 240, the relevant qualitative characteristics described in the PIF<sup>22</sup> that will be applicable to the changes being made as the project is being progressed include:

- (a) *Scalability* (including proportionality to the standard's relative impact on different stakeholders).
- (b) *Relevance* (through recognizing and responding to emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology).
- (c) *Comprehensiveness* (through limiting the extent to which there are exceptions to the principles set out).
- (d) *Clarity and conciseness* (to enhance understandability and minimize the likelihood of differing interpretations).
- (e) *Implementability and ability of being consistently applied and globally operable*.
- (f) *Enforceability* (through clearly stated responsibilities).

It is intended that these qualitative characteristics are explicitly considered as changes to ISA 240 are proposed.

27. In considering any changes to ISA 240, the Fraud Task Force will consider changes that have been made in other jurisdictions to their fraud-related standards, including by:
- Japan – The Business Accounting Council established a standard in 2013 titled “[Standard to Address Risks of Fraud in an Audit](#)” to be applied to audits of publicly traded companies.<sup>23</sup>
  - The Netherlands – The Royal Nederlandse Beroepsorganisatie van Accountants (NBA) published the consultation document “[Mandatory Reporting on Fraud and Continuity in the Auditor's Report](#)”<sup>24</sup> in September 2021.

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<sup>21</sup> See the PIF's section on “What qualitative characteristics should the standards exhibit?” (on pages 22-23 of the Monitoring Group's report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

<sup>22</sup> The other qualitative characteristics apply more broadly, with some addressed by the matters set out in this project proposal, while others may need to be considered at the end of the project.

<sup>23</sup> This standard introduces an increased emphasis on professional skepticism, clarifies fraud-related audit procedures, requires more cautious performance of audit procedures in certain circumstances, particularly when the auditor has determined that any suspicion of a material misstatement due to fraud exists, and establishes additional quality control considerations.

<sup>24</sup> The consultation document supplements the Dutch Standards on Auditing with an obligation to always report on fraud and continuity in the auditor's report. The proposed additions to the Dutch Auditing Standard 700 require the auditor to articulate in the auditor's report how the audit has addressed significant continuity and fraud risks, respectively. In addition, the auditor may also disclose the results of these procedures or significant observations related to both subject matters.

- The United Kingdom (UK) – The Financial Reporting Council (FRC) issued targeted revisions of its UK auditing standard on the responsibilities of auditors relating to fraud – “[ISA \(UK\) 240 \(Revised May 2021\)](#), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*”<sup>25</sup> in May 2021.

The Fraud Task Force will also continue to monitor global developments for any other changes that may be relevant to a project on fraud.

28. In revising ISA 240, the Fraud Task Force will follow the [CUSP Drafting Principles and Guidelines](#) to enable the writing of standards that result in the consistent and effective application of the ISAs. The Fraud Task Force will endeavor to:
- Use clear, simple and concise language.
  - Take into account scalability and proportionality in assessing the standard's public interest responsiveness.
  - Consider scalability related to LCEs and considerations specific to public sector entities.

#### *Other Actions*

29. To emphasize the importance of all stakeholders in the financial reporting ecosystem in addressing the issues and challenges raised on fraud, the project proposal includes proposed actions focusing on activities that are educational in nature and will likely involve engagement with others. Stakeholder feedback called for efforts to:
- ‘Educate’ TCWG on the development and execution of anti-fraud programs and controls (e.g., championed by accountancy organizations, board associations, shareholder groups, etc.).
  - Enhance training about fraud in auditors’ continuing professional education, by both universities and professional accounting bodies (e.g., in the areas of fraud risk assessment, forensic skills, technological competence and applying a skeptical mindset (including topics such as behavioral science, e.g., concepts of conscious and unconscious bias)).
  - Develop financial statement auditors’ forensic skills and fraud awareness, including lessons learned from recent fraud cases.
30. Where within the remit of the IAASB, actions of an ‘educational nature’ will focus on emphasizing the importance of all stakeholders in the financial reporting ecosystem playing their role in addressing issues raised on fraud by:
- Continuing discussions with stakeholders about the role they play over the course of the project (e.g., regulators and audit oversight bodies, national standard setters (NSS), investors and other users of the financial statements, audit firms, public sector organizations, corporate governance experts, academics, member bodies, and other professional organizations).
  - Issuing communications from the IAASB about the importance of this topic, including the role and responsibilities of the auditor and the role of others in the financial reporting ecosystem.

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<sup>25</sup> The targeted revisions to the UK’s equivalent standard are designed to provide increased clarity as to the auditor’s obligations, addressing the concern raised by Sir Donald Brydon in his review of the quality and effectiveness of audit.

Materials or actions may include short educational videos or webinars promoted on the IAASB's website and social media accounts.

31. Where issues are not solely within the IAASB's remit, other actions will focus on continued dialogue and engagement with other parties in the financial reporting ecosystem. The IAASB will also liaise and collaborate more broadly with the IESBA and the International Federation of Accountants (IFAC), including using the IAASB's, IESBA's and IFAC's global voices in encouraging action for others, and engaging with IFAC's International Panel on Accountancy Education (IPAE).

*Ongoing Activities – Coordination with Other Task Forces, and Working and Consultation Groups*

32. The project on fraud will involve coordination and collaboration with other IAASB task forces, working groups and consultation groups in addressing key issues identified, as the issues may also relate to other IAASB projects or ongoing initiatives. The project on fraud will also involve coordination and collaboration with the IESBA on certain matters to be addressed on fraud as described below. Planned ongoing activities in the course of the project include:

- Collaborating with the LCE Task Force when considering examples to illustrate the scalability of the requirements (e.g., providing examples that are more relevant to LCEs).
- Collaborating with the Technology Consultation Group to determine the need for certain non-authoritative guidance (as discussed in the table in paragraph 25 above) and to provide input and support to the Fraud Task Force on technology-related matters.
- Coordinating with the Audit Evidence Task Force in determining whether changes made in the project to revise ISA 500 impact the requirements in ISA 240, for example, with regard to the authenticity of audit evidence and whether (and how) aspects of evidence impact the auditor's considerations about external confirmations.
- Monitoring technology-related changes made in the ISA 500 project and how this may be relevant to ISA 240 in terms of enhancing application material or developing non-authoritative guidance to promote a more integrated approach to the auditor's fraud considerations.
- Collaborating with the Auditor Reporting Consultation Group as necessary on possible changes to the auditor's report.
- Collaborating with other IAASB workstreams, such as the Professional Skepticism Consultation Group and other active projects where professional skepticism is being considered (e.g., Audit Evidence, Going Concern) in developing possible enhancements (requirements or application material) or non-authoritative guidance related to professional skepticism.
- Coordinating with the IESBA on any proposed changes in the project to revise ISA 240 that may impact the work of the IESBA. In addition, liaising with IESBA when developing non-authoritative materials that may involve aspects of the IESBA Code, such as when developing guidance about the required actions to be taken when responding to identified or suspected fraud under ISA 240, and non-compliance with laws or regulations under ISA 250 (Revised) (i.e., NOCLAR).

**VII. Project Timeline, Project Priorities and Resources**

- 33. The project will be undertaken in accordance with the Public Interest Activity Committees' Due Process and Working Procedures.<sup>26</sup>
- 34. Subject to the IAASB's approval of this project proposal, the project to revise ISA 240 will commence immediately. The priority actions within the project will be to undertake standard setting to address the key issues identified (see **Sections V** and **VI**). Other activities, including the development of non-authoritative guidance, will be undertaken when feasible and to the extent resources are available.
- 35. The IAASB proposes the following preliminary timetable, noting that specific project milestones and outputs may change as the project develops. In progressing the changes, if there are opportunities to advance the targeted timing, the Fraud Task Force will adjust its activities accordingly, and new targeted timelines will be communicated (it is noted that the Board will use best endeavors to aim for an effective date not beyond December 2026).

Targeted Timing	Action(s)	
	Standard-Setting (Priority Actions)	Other
H1 <sup>27</sup> 2022 to H1 2023	<ul style="list-style-type: none"> <li>• Develop an exposure draft, including IAASB deliberation of issues, proposals and relevant discussion of the exposure draft.</li> <li>• Obtain input from the IAASB CAG on the issues and proposals, including discussing the exposure draft of ISA 240 (Revised) (including conforming and consequential amendments to other ISAs).</li> <li>• Outreach with other key stakeholders on key issues and proposals as the exposure draft is developed.</li> <li>• June 2023: Approval of an exposure draft by the IAASB.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of non-authoritative guidance:                             <ul style="list-style-type: none"> <li>○ Linkages of ISAs to ISA 240.</li> </ul> </li> <li>• Activities that are educational in nature on the responsibilities of an auditor on fraud in an audit of financial statements.</li> <li>• Ongoing monitoring of developments in different jurisdictions.</li> </ul>

<sup>26</sup> As required by the IAASB's [Terms of Reference](#), this is the [Due Process and Working Procedures](#) as approved by the PIOB and that the IAASB must adhere to in developing its International Standards.

<sup>27</sup> H1 includes the period January through June, and H2 includes the period July through December of any calendar year, respectively.

Targeted Timing	Action(s)	
	Standard-Setting (Priority Actions)	Other
H2 2023	<ul style="list-style-type: none"> <li>Publish exposure draft of proposed ISA 240 (Revised), with proposed conforming and consequential amendments to other ISAs and an Explanatory Memorandum for a 120-day comment period.</li> <li>Outreach with other key stakeholders, who usually do not participate in the IAASB's consultation on its exposure draft.</li> <li>Comment period for responses to exposure draft closes.</li> </ul>	<ul style="list-style-type: none"> <li>Development of non-authoritative guidance as deemed necessary by the IAASB.<sup>28</sup></li> <li>Ongoing monitoring of developments in different jurisdictions.</li> </ul>
H1 2024	<ul style="list-style-type: none"> <li>IAASB deliberation of responses to the exposure draft and resulting proposed changes to ISA 240 (Revised).</li> <li>Obtain CAG input on consideration of the responses to the exposure draft and proposed changes to ISA 240 (Revised) as a result of those responses.</li> <li>Outreach with other key stakeholders on key issues as the final pronouncement is developed.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing monitoring of developments in different jurisdictions.</li> </ul>
H2 2024	<ul style="list-style-type: none"> <li>As in H1 2024, deliberation of responses, obtaining CAG input and undertaking outreach.</li> <li>IAASB approval of ISA 240 (Revised) and conforming and consequential amendments to other ISAs.</li> </ul>	

<sup>28</sup> Although majority of the development of the non-authoritative guidance is planned for H1 2025, the Board will confirm the timing and consider the appropriateness of the development of non-authoritative guidance in H2 2023.

Targeted Timing	Action(s)	
	Standard-Setting (Priority Actions)	Other
H1 2025	<ul style="list-style-type: none"> <li>• PIOB approval of ISA 240 (Revised).</li> <li>• Publication of final standard and Basis for Conclusions.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and publication of first-time implementation guide.</li> <li>• Development of non-authoritative guidance as deemed necessary by the IAASB.</li> </ul>

36. In determining the resources required for a project to revise ISA 240, the IAASB will:

- Establish a task force responsible for the project and select task force members (comprising IAASB members or others, as appropriate, with diverse backgrounds). The selection process will also seek balance in:
  - Representation between practitioners and non-practitioners, including public members.<sup>29</sup>
  - Other representational needs, including geographic representation.
- Assign IAASB Staff to support the Fraud Task Force that is adequate to the weight of the project and with the appropriate level of seniority and experience. Given the scope of the project proposal to revise ISA 240, the IAASB anticipates assigning a director, a principal and a technical manager to the project.
- Consult with external experts or specialists in addressing targeted issues in the project for which the Fraud Task Force may need assistance in certain fields of expertise or specialization, for example, in forensics and technology.
- Consult with targeted stakeholder groups about changes, where necessary. For example, perform outreach with representatives from TCWG in developing changes that are relevant to the communications with TCWG.
- Allocate or coordinate resources, as needed, for the proposed other actions focusing on activities that are educational in nature and for engagement with others, including communication activities during the course of project.
- Use webinars, roundtables, surveys or other tools to explore actions or explain changes to the IAASB's stakeholders as relevant.
- Prioritize the project and allocate sufficient Board plenary time to deliberate significant matters that will be raised from a broad stakeholder consultation process, and finalize the revision of ISA 240.

<sup>29</sup> A public member is an individual who satisfies the requirements of a non-practitioner and is also expected to reflect, and is seen to reflect, the wider public interest. Not all non-practitioners are therefore eligible to be public members.

- Allocate sufficient time to consult with the CAG on significant issues raised during the course of the project.
- Allocate sufficient time to consult with the PIOB on its [public interest issues](#) relevant to the project.

## VIII. Project Output and Impact

37. The expected output of the project is a revised ISA 240, with enhancements and clarifications, and conforming and consequential amendments to certain other ISAs, to achieve the objectives set out in this project proposal. In line with the PIF's qualitative characteristics used to describe the assessment of a standard's responsiveness to the public interest, the qualitative characteristics to be considered when finalizing this project include whether the revised standard (and its related conforming and consequential amendments):

- (a) Are consistent with the identified public interest objectives set out for the project (see paragraph 12).
- (b) Operate coherently with the overall body of ISAs.
- (c) Address the identified key issues (see paragraph 19).
- (d) Has responded, as appropriate to differing circumstances, emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology.
- (e) Reflects the results of broad consultation and has balanced stakeholder priorities.
- (f) Has been developed with sufficient clarity and conciseness to support proper intended application and minimize the likelihood of differing interpretations.
- (g) Is capable of being implemented effectively, and consistently applied globally.

These qualitative characteristics can be explored with the IAASB's stakeholders in the exposure draft consultation (i.e., specific questions asking stakeholders about these matters will be included within the exposure draft). In addition, further input from stakeholders on these matters could form part of the post-implementation review of the revised ISA 240.

38. The impact of the changes from this project will come through effective implementation of the revised standard and monitoring of its application (e.g., through firms' systems of quality management and external inspections, as well as with ongoing outreach with the IAASB's key stakeholders). Notwithstanding that other environmental influences may also impact auditor behavior, the effective implementation of the revised standard and monitoring efforts, it is expected that enhancing or clarifying ISA 240 will result in:

- Improved audit quality through the consistent application of the requirements related to fraud procedures, in particular:
  - More robust risk identification and assessment procedures, and effective responses to identified risks.
  - Appropriate exercise of professional skepticism in fraud-related audit procedures.

- Enhanced transparency through communicating with TCWG and reporting on fraud-related procedures.
  - Better meeting stakeholder expectations on the auditor's responsibilities (including the responsibilities of others in the financial reporting ecosystem) relating to fraud in an audit of financial statements, thereby enhancing confidence in audit engagements.
  - Reduced inspection findings related to the auditor's procedures on fraud in an audit of financial statements (recognizing that inspections findings are also affected by auditors failing to comply with a standard even though the requirements of the standard are clear and robust or different inspection regimes focus on other areas and may therefore not be consistently representative of changes in inspection findings).
39. It is encouraged that a post-implementation review be undertaken to assess whether the objectives for revising ISA 240 have been met and the standard has been effectively implemented, after allowing about three completed audit cycles after implementation of the revisions.

## Basis of Project Proposal on Fraud

1. The IAASB undertakes wide-ranging information gathering and research activities in relation to possible new topics of global relevance to identify emerging issues, changing business or public practice environments, developments in accounting and auditing practices, and changes in technology that inform the development of new and revised standards that address the needs of the IAASB's stakeholders.
2. Accordingly, this project proposal was developed on the basis of:
  - (a) Information gathering activities:
    - The IAASB undertook an academic desktop review of relevant research on fraud in an audit of financial statements.<sup>30</sup>
    - The IAASB compiled feedback submitted by various stakeholders on the topic of fraud through other completed or ongoing IAASB projects, including [ISA 540 \(Revised\)](#), Auditor Reporting Standards,<sup>31</sup> ISA Implementation Monitoring,<sup>32</sup> [ISA 315 \(Revised 2019\)](#), [Audits of LCEs](#), and the [Strategy for 2020–2023 and Workplan for 2020–2021](#).
    - The IAASB considered results from reviews performed in other jurisdictions covering the topic of fraud in an audit of financial statements (e.g., the [Brydon](#) and [Kingman](#) reviews in the UK and the [2019 Fraud Thematic Review](#) in Canada).
    - The IAASB liaised with representatives from the NSS on the topic of fraud during the IAASB's May 2020 NSS virtual meeting, discussing initiatives that are ongoing or completed in different jurisdictions.
    - The IAASB met with representatives from Japan and the UK, respectively, to gather more information about (1) the [separate fraud standard issued in Japan](#) in 2013, and (2) the project in the UK to revise the [UK fraud audit standard](#).<sup>33</sup>
    - The IAASB published the DP, [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](#), which sets out the issues and challenges about the expectation gap (i.e., in general terms, the difference between what users of financial statements expect from the auditor and the

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<sup>30</sup> The academic desktop review included 111 reports on fraud.

<sup>31</sup> The Auditor Reporting Standards comprise: ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

<sup>32</sup> The IAASB's ISA Implementation Monitoring Project was completed in July 2013 and was undertaken to determine whether further changes were needed to the ISAs arising from the IAASB's Clarity project. Any [findings](#) as part of this review related to fraud have been included for consideration as part of the current initiatives on fraud.

<sup>33</sup> On May 27, 2021, the UK FRC issued a revision of its UK auditing standard on the responsibilities of auditors relating to fraud – ISA (UK) 240 (Revised May 2021), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

audit, and the reality of what an audit is) and explores some possible actions that the IAASB could undertake to help narrow the expectation gap (without favoring or committing to any specific actions at that stage). The DP was published in September 2020 and was open for comments until early 2021.

(b) Roundtables:<sup>34</sup>

- [Technology-Focused Fraud Roundtable](#) – On September 1, 2020, the IAASB hosted the 1<sup>st</sup> of the roundtable series on fraud and going concern, which was focused on the impact of technology advancements on fraud perpetration and detection. This event was moderated by Fiona Campbell, former IAASB Deputy Chair, and virtually attended by 52 participants, IAASB members, official and staff observers. Participants included forensic specialists, financial statement auditors, fraud audit methodology experts, third party audit solution companies, regulators, academics, and public sector representatives.
- [Expectation Gap and Auditor Reporting Roundtable](#) – On September 28, 2020, the IAASB hosted the 2<sup>nd</sup> of the roundtable series on fraud and going concern, which was focused on the “expectation gap,” or differences between public perceptions and the auditor’s responsibilities for fraud and going concern. This event was moderated by Fiona Campbell, former IAASB Deputy Chair, and virtually attended by 58 participants, IAASB members, official and staff observers. Participants included investors, analysts, corporate governance experts, audit firms, academics, regulators, public sector representatives, and select others.
- [Audit Procedures Related to Fraud in Audits of LCEs](#) – On October 7, 2020, the IAASB hosted the 3<sup>rd</sup> of the roundtable series on fraud and going concern, which was focused on audits of LCEs. This event was moderated by Kai Morten Hagen, IAASB Member and then LCE Working Group Chair, and virtually attended by 44 participants, IAASB members, official and staff observers. Participants included auditors, audit methodology experts, and representatives of third-party audit solution companies and professional accountancy bodies.

(c) Root cause analysis efforts:

- The IAASB undertook efforts to better understand the root causes of recent fraud cases. IAASB members and staff contacted police and crime commission representatives, fraud investigators, regulators, and audit firms and held meetings to gather information on the following topics in relation to recent fraud cases:
  - (a) How frauds are being executed and concealed;
  - (b) Whether frauds involved related parties;
  - (c) What financial accounts were impacted;

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<sup>34</sup> On November 2020, the IAASB published a [Summary of Key Take-aways](#), which summarizes what the IAASB heard from the roundtables with experts and leaders exploring issues and challenges related to fraud and going concern. These roundtables focused on: (1) the impact of technology advancements on fraud perpetration and detection; (2) the “expectation gap,” or differences between public perceptions and the auditor’s responsibilities for fraud and going concern; and (3) fraud and going concern in audits of LCEs.

- (d) How the frauds were eventually detected, and by who;
  - (e) Whether and to what extent technology was involved;
  - (f) Whether material frauds started small but grew over time (and if so, what length of time), or whether the frauds were material from the start; and
  - (g) Any other details to help better understand the nature of the frauds and the root causes of the issues as to why they were not prevented or detected earlier.
- Further, the IAASB discussed supplemental topics with audit firms, such as:
    - (a) Whether there have been any changes to the audit firm's methodology or training in relation to fraud in recent years;
    - (b) Whether they have any views as to the root causes of perceived audit failures in relation to fraud; and
    - (c) To what extent forensic specialists are used and in what circumstances.
  - A summary of the feedback received from the following outreach activities on the root cause of fraud will be provided and discussed at the December 2021 IAASB meeting. The root cause analysis findings were also considered in the development of the project proposal.
- (d) Other targeted outreach as set out below:

Outreach Group	Date(s) Held	Details
Canadian Public Accountability Board (CPAB)	October 2, 2020	CPAB provided an update on their work on fraud. An IAASB member and staff provided an update on the IAASB's fraud information gathering activities and high-level observations and take-aways from the roundtables held in September 2020.
Forum of Firms (FoF)	October 6, 2020	IAASB Staff provided the FoF with an update regarding the information gathering activities related to fraud and asked for broad feedback. The FoF was broadly supportive of the project and provided some additional feedback.
Center for Audit Quality (CAQ)	October 15, 2020	IAASB Staff provided the CAQ with high-level observations and take-aways from the three virtual IAASB roundtables discussed earlier in this document.

IAASB Main Agenda (December 2021)

Outreach Group	Date(s) Held	Details
Accountancy Europe	October 29, 2020	Accountancy Europe provided the IAASB with an update on their project focused on fraud. IAASB Staff provided Accountancy Europe participants with high-level observations and take-aways from the three virtual IAASB roundtables.
NSS	November 3, 2020	IAASB Staff provided the NSS with high-level observations and take-aways from the three virtual IAASB roundtables.
Auditing Section of the American Accounting Association (AAA)	January 15, 2021	A Fraud Working Group member participated in a panel discussion focused on fraud and the expectation gap hosted by the AAA.
European Audit Committee Leadership Network (EACLN) of the Tapestry Network	February 5, 2021	The IAASB chair and staff provided the EACLN with a brief explanation of the IAASB's work on fraud in an audit of financial statements. The EACLN provided their views on concepts discussed in the DP.
Representatives from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the European Court of Auditors (ECA)	February 22, 2021	IAASB Staff provided an explanation of the IAASB's work on fraud in an audit of financial statements. The representatives from CIPFA and the ECA provided perspectives relevant to fraud in the public sector.
China Auditing and Assurance Standards Board (including official representatives from the Ministry of Finance and China Securities and Regulatory Commission)	March 13, 2021	A Fraud Working Group member provided an update on the IAASB fraud initiative and high-level observations from the DP responses.
Leadership Team of the Shenzhen Stock Exchange	March 13, 2021	A Fraud Working Group member provided an update on the IAASB fraud initiative and high-level observations from the DP responses.

IAASB Main Agenda (December 2021)

Outreach Group	Date(s) Held	Details
Accountancy Europe	March 22, 2021	IAASB Staff provided an update on the fraud and going concern initiatives, including an update of high-level themes from the DP responses. Accountancy Europe representatives provided an update on their fraud and going concern initiatives, noting their recently published publications on these topics and asked stakeholders to respond by April 30, 2021.
FoF	March 24, 2021	The Fraud Working Group Chair participated as panellist in discussion about fraud and provided brief high-level observations from the DP response analysis. Other panellists included representatives from Accountancy Europe, the UK FRC, and a corporate governance representative from Australia.
International Organization of Securities Commission (IOSCO)	March 24, 2021	IAASB members and staff provided IOSCO with high-level observations from the DP response analysis. IOSCO expressed their support for this project and noted the IAASB should consider all possible actions to address issues (whether standard setting or other actions, such as activities that are educational in nature or non-authoritative guidance).
International Forum of Independent Audit Regulators (IFIAR)	April 8, 2021	IAASB members and staff provided IFIAR with high-level observations from the DP response analysis. IFIAR expressed their support for this project.
UK FRC	April 20, 2021	The UK FRC provided IAASB Staff with an update on the responses to their consultation on proposed revisions to ISA (UK) 240.

IAASB Main Agenda (December 2021)

Outreach Group	Date(s) Held	Details
CPAB	April 23, 2021	IAASB member and staff provided an update of high-level observations from the DP. CPAB provided an update of activities performed in their jurisdiction.
Chartered Accountants Australia and New Zealand (CA ANZ)	April 27, 2021	The Fraud Working Group Chair received an update on the research paper being prepared by Association of Chartered Certified Accountants, Canadian Auditing Standards Board, CA ANZ and Chartered Professional Accountants Canada, including a discussion on the role of professional bodies in education and the various roles of the parties across the ecosystem.
The Royal Netherlands Institute of Chartered Accountants	May 12, 2021	IAASB member and staff were provided with the background and details of an auditor reporting pilot initiative in the Netherlands for increased transparency for fraud and going concern. The initiative is in its early phases and the IAASB will continue to monitor as it progresses.
IFAC Representatives, Including Staff Supporting the IPAE	June 11, 2021	IAASB Staff provided an update of high-level observations from the DP. IAASB Staff and IFAC representatives, including staff supporting the IPAE, held initial discussions about developing a collaborative, multi-stakeholder solution by all participants in the financial reporting ecosystem through educational efforts, including using the IAASB's and IFAC's global voice in encouraging action for others.