

# Agenda Item H.5 (For Reference)

Please note: This is the IAASB Fraud Issues Paper that will be discussed by the Board at the September 2023 IAASB quarterly meeting (Agenda Item 3). This paper is provided to the IAASB CAG Representatives in September 2023 for reference purposes. Other September 2023 Fraud Agenda Items, as summarized below, may be accessed through the IAASB's [Meeting Page](#).

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

### Objectives

The objectives of the IAASB discussion in September 2023 are to obtain the Board's input on the Fraud Task Force's (Fraud TF):

- Key changes in proposed ISA 240 (Revised)<sup>1</sup> that are intended to promote consistent practice and change auditor behavior, and other significant changes made since June 2023 – see **Section I** of this Agenda Item and the related paragraphs in **Agenda Item 3–A**. The summary of significant deliberations and changes in **Agenda Item 3–B** provides additional detail as to the rationale for changes that were or were not made in **Agenda Item 3–A**.
- Proposed conforming and consequential amendments arising from proposed ISA 240 (Revised) – see **Section II** of this Agenda Item and the related paragraphs in **Agenda 3–C**.

### Introduction

1. At the June 2023 IAASB meeting, the Fraud TF presented its views, recommendations and drafting for proposed ISA 240 (Revised) in response to Board feedback for the topics that were deliberated at the June, September and December 2022 IAASB meetings. The IAASB's decisions, directions and other substantial matters raised are included in the draft June 2023 IAASB meeting minutes (see Agenda Item 1 of the September 2023 IAASB meeting).
2. This paper sets out the following:
  - **Section I** – Proposed ISA 240 (Revised) and changes made since the June 2023 IAASB meeting.
  - **Section II** – Proposed conforming and consequential amendments arising from proposed ISA 240 (Revised).
  - **Section III** – Matters for the Explanatory Memorandum.
  - **Section IV** – Way forward.

### Approach to the Board Discussion

3. The Fraud TF Chair will go through the draft of proposed ISA 240 (Revised) presented in **Agenda Item 3–A**, by section or sub-section, and the proposed conforming and consequential amendments

<sup>1</sup> Proposed International Standard on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

in **Agenda Item 3–C. Appendix 2** to this Agenda Item shows the approach for the walkthrough of **Agenda Items 3–A and 3–C**. As part of the ‘walk through,’ the Fraud TF Chair will highlight, and Board members may wish to specifically address, the key proposed, and other significant changes discussed in **Sections I and II** of this Agenda Item.

*Materials Presented—Appendices and Other Agenda Items Accompanying This Paper*

4. This Agenda Item includes the following appendices, other agenda items and supplemental materials:

<b>Appendix 1</b>	Fraud TF Members and Update on Activities Since the June 2023 IAASB Meeting
<b>Appendix 2</b>	Approach for the Walkthrough of Agenda Items 3–A and 3–C
<b>Agenda Item 3–A</b>	Proposed ISA 240 (Revised), <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i> – Marked from June 2023
<b>Agenda Item 3–B</b>	Summary of Significant Deliberations and Changes
<b>Agenda Item 3–C</b>	Conforming and Consequential Amendments Arising from Proposed ISA 240 (Revised)
<b>Agenda Item 3–D (Supplemental)</b>	Proposed ISA 240 (Revised), <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i> – Clean Version

**Applying the CUSP Drafting Principles and Guidelines<sup>2</sup>**

5. In August 2023, an independent review was undertaken to ensure that the Complexity, Understandability, Scalability and Proportionality (CUSP) Drafting Principles and Guidelines have been consistently applied in the development of proposed ISA 240 (Revised) included in **Agenda Item 3–A**.

**Coordination with IESBA, IAASB Task Forces, Consultation Groups and Other Experts**

*IESBA*

6. In August 2023, an update was provided to the IESBA<sup>3</sup> Staff and Liaison Board Member relating to the changes made to proposed ISA 240 (Revised) that may impact the IESBA Code<sup>4</sup> (e.g., the definitions). This update also addressed any revisions made, in response to Board feedback received, as it related to the proposed linkages to the IESBA Code. The IAASB Staff considered the feedback received from the IESBA Staff and the Liaison Board Member and reflected the

<sup>2</sup> See the [CUSP Drafting Principles and Guidelines](#).

<sup>3</sup> International Ethics Standards Board for Accountants

<sup>4</sup> IESBA’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

recommendations in proposed ISA 240 (Revised).

7. The IAASB Staff will coordinate further, as needed, with the IESBA Staff and Liaison Board Member through the finalization of proposed ISA 240 (Revised) for exposure.

#### *IAASB Task Forces and Consultation Groups*

8. Since June 2023, coordination activities with IAASB Task Forces and Consultation Groups included the following:
  - Audit Evidence Task Force (AETF): In August 2023, the AETF Chair, the Fraud TF Chair and the designated IAASB Staff for each of the projects held a call to discuss the relevant paragraphs in proposed ISA 240 (Revised) that may impact, or may be impacted by, the AETF's work on proposed ISA 500 (Revised).<sup>5</sup> IAASB Staff on the Fraud project plans to further coordinate with the AETF prior to the finalization of proposed ISA 240 (Revised) for exposure.
  - Professional Skepticism Consultation Group (PSCG): In July 2023, the IAASB Staff obtained feedback from members of the PSCG on enhancements made to the requirements and application material in proposed ISA 240 (Revised) related to professional skepticism. The feedback received was considered by the Fraud TF in their meetings.

#### *Other Experts*

9. During a Fraud TF in-person meeting in July 2023, Bruce Dorris (former President and Chief Executive Officer (CEO) of the Association of Certified Fraud Examiners (ACFE)) and John Warren (CEO of the ACFE) joined virtually as guests. They presented the key matters covered in the [ACFE's Occupational Fraud 2022: A Report to the Nations](#) and engaged with the Fraud TF members and IAASB Staff in a discussion about how the fraud landscape has changed since the publication of that report.

#### **Addressing the Standard-Setting Actions Included in the Project Proposal**

10. In developing the revisions to proposed ISA 240 (Revised), the Fraud TF remained focused on the standard-setting actions envisaged by the [project proposal](#) and considered the qualitative standard-setting characteristics<sup>6</sup> as criteria to assess the responsiveness of proposed ISA 240 (Revised) to the public interest.

### **Section I – Proposed ISA 240 (Revised) and Changes Made Since the June 2023 IAASB Meeting**

11. **Agenda Item 3–A** includes a second full draft of proposed ISA 240 (Revised). **Agenda Item 3–B** summarizes the Fraud TF's significant deliberations and changes, and the rationale for making or not making the changes in proposed ISA 240 (Revised) including, for example, comments on removing duplication with other ISAs, and applying the fraud lens, within the standard. This may be helpful when understanding the thinking of the Fraud TF in developing the changes outlined in **Agenda Items 3–A and 3–C**.

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<sup>5</sup> Proposed ISA 500 (Revised), *Audit Evidence*

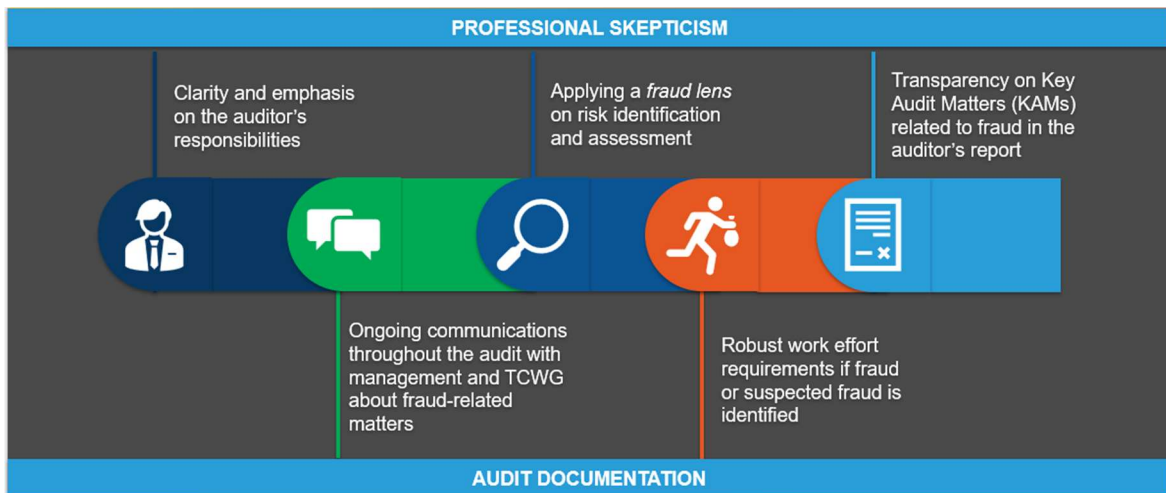
<sup>6</sup> See paragraph 26 of the project proposal and the Public Interest Framework (PIF) included in the Monitoring Group report *Strengthening the International Audit and Ethics Standard-Setting System*.

12. In developing the changes, the Fraud TF considered:

- Comments provided in June 2023, by the Board during the plenary session on fraud, and comments provided to IAASB Staff directly (i.e., ‘off-line comments’).
- Input from the coordination with the IESBA, the AETF, the PSCG and other experts.

### Key Proposed Changes in ISA 240 Aimed at Promoting Consistent Practice and Changing Auditor Behavior

13. The diagram and the related sections below depict and describe what the Fraud TF believes to be the seven most significant proposed changes addressing the key issues identified in the project proposal, that will drive consistency in practice and change in auditor behavior, specifically: auditor’s responsibilities, professional skepticism, communications with management and those charged with governance (TCWG), risk identification and assessment, fraud or suspected fraud, transparency in the auditor’s report and documentation.
14. A high-level description of the Fraud TF’s deliberations and recommendations is included in **Sections I–A through I–G** below.



#### I-A – Clarity and Emphasis on the Auditor’s Responsibilities (Introduction)

15. The Fraud TF sought to clarify what is meant by fraud or suspected fraud “identified by the auditor.” The auditor may identify fraud or suspected fraud when performing audit procedures in accordance with the proposed standard (e.g., identified through inquiries of management). Allegations of fraud may also come to the auditor’s attention during the audit (e.g., an allegation of fraud is communicated to the auditor by an employee or former employee) and are treated by the auditor, in accordance with the proposed standard, as “suspected fraud identified by the auditor.” Any fraud or suspected fraud that is identified by the auditor (i.e., including, as described above, allegations of fraud that come to the auditor’s attention) will attract the additional requirements in paragraphs 54–63 of the proposed standard. (See paragraph 7 and related application material in **Agenda Item 3–A**)
16. The Fraud TF recognizes that there is a common understanding by auditors that fraud constitutes an instance of non-compliance with laws and regulations, but that not all instances of non-compliance with laws and regulations are fraudulent in nature. The Fraud TF believes that this notion is already

implicit in proposed ISA 240 (Revised) and is therefore proposing changes to clarify this understanding by explicitly including wording to this effect in the proposed standard. In doing so, the Fraud TF believes that the linkages between proposed ISA 240 (Revised) and ISA 250 (Revised)<sup>7</sup> will be further reinforced (see paragraph 13 in **Agenda Item 3–A**). The Fraud TF has also proposed a consequential amendment to remove fraud as an example of laws and regulations that may be encompassed by the categories described in ISA 250 (Revised) as the Fraud TF believes that fraud is an instance of non-compliance with laws and regulations (i.e., it is not merely an example of non-compliance with laws and regulations). This proposed consequential amendment is intended to resolve the inconsistency resulting from the clarification to paragraph 13 in **Agenda Item 3–A** such that the coherence within the overall body of the standards is maintained. (See **Agenda Item 3–C**, conforming and consequential amendments to paragraphs A6 of ISA 250 (Revised))

#### *I-B – Professional Skepticism*

17. The Fraud TF proposes to delete paragraph A24 in **Agenda Item 3–A** from the application material. The Fraud TF believes that the auditor should approach every audit with a ‘fresh pair of eyes’ and that referring to the auditor’s preconceptions, based on past experience, about the honesty and integrity of management and TCWG may serve to undermine that principle. Specifically, the auditor maintains professional skepticism, which includes a consideration of the reliability of the information intended to be used as audit evidence, including information obtained from management or TCWG as described in paragraph A23 in **Agenda Item 3–A**, regardless of past experience.
18. The Fraud TF proposes a consequential amendment to paragraph A24 of ISA 200<sup>8</sup> to delete the following sentence from that paragraph: *“The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.”* The Fraud TF believes the sentence undermines the auditor’s responsibility to maintain professional skepticism throughout the audit. Specifically:
  - Deleting the sentence is consistent with the direction the Board took in proposed ISA 500 (Revised) which requires the auditor to consider the applicability of the attributes of reliability of information intended to be used as audit evidence (i.e., applicability in the circumstances, given the intended purpose of the audit procedures). That includes a consideration of the applicability of the attribute of authenticity of records and documents.
  - Deleting the sentence is also consistent with the deletion of the lead-in sentence to a previous iteration of the requirement in paragraph 19 considered by the Board at the June 2023 IAASB meeting (see **Agenda Item 3–A** for the June 2023 IAASB meeting) which stated: *“Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.”*

#### *I-C – Ongoing Communications Throughout the Audit with Management and TCWG About Fraud-Related Matters*

19. The Fraud TF reaffirmed that the overarching communication requirement be placed at the beginning

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<sup>7</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>8</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

of the standard to reinforce that such communications are ongoing and take place throughout the audit engagement. (See paragraph 25 in **Agenda Item 3–A**)

*I-D – Applying a Fraud Lens to Risk Identification and Assessment*

20. The Fraud TF further aligned the structure and layout of proposed ISA 240 (Revised) to ISA 315 (Revised 2019),<sup>9</sup> including further alignment with the requirements of certain foundational standards (e.g., ISA 315 (Revised 2019) and ISA 540 (Revised)<sup>10</sup>) of which proposed ISA 240 (Revised) refers to or expands on. (See paragraphs 28, 29A–29C, 30(a)(iii), 33(a) and 34 in **Agenda Item 3–A**)
21. The Fraud TF further enhanced certain requirements by applying the fraud lens, and added a new requirement to obtain an understanding of control activities that prevent or detect fraud other than “controls over journal entries.” (See paragraphs 31(a), 35(b) and 40(a) in **Agenda Item 3–A**)

*I-E – Robust Work Effort Requirements When Fraud or Suspected Fraud Is Identified*

22. The Fraud TF acknowledged that the auditor may or may not determine that it is necessary to perform additional risk assessment procedures as this is dependent on whether:
  - (a) The audit evidence obtained from the previously performed risk assessment procedures provides an appropriate basis for the identified and assessed risks of material misstatement due to fraud, or
  - (b) New information has been obtained which is inconsistent with the audit evidence on which the auditor originally based the identification or assessments of the risks of material misstatement due to fraud.
23. Irrespective of whether the risk assessment is revised, the auditor may still determine that it is necessary to design and perform further audit procedures to respond to risks of material misstatement due to fraud. Consequently, the Fraud TF added paragraph 57(b) to reflect that the auditor is also required to determine whether to design and perform (additional) further audit procedures in accordance with ISA 330.<sup>11</sup> (See paragraph 57 in **Agenda Item 3–A**)
24. In response to feedback received about the importance of engaging with the appropriate level of management and TCWG, the Fraud TF proposes to elevate such inquiries to be the first of several additional procedures that the auditor is required to perform. The Fraud TF believes that requiring the auditor to inquire about the process implemented by management or TCWG to investigate the fraud or suspected fraud is aligned with the role of the auditor in an audit of financial statements. Specifically, the Fraud TF does not believe that the auditor can be required to direct management or TCWG, as applicable, to have a plan to investigate the matter. (See paragraph 59(a) and the related application material in **Agenda Item 3–A**)
25. The auditor is required to determine whether the identified misstatements due to fraud are material based on the audit procedures performed in accordance with proposed ISA 240 (Revised) (see paragraphs 54–59 in **Agenda Item 3–A**). This approach does not contemplate consideration that a

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

<sup>10</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>11</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

misstatement due to error identified by the auditor and being evaluated in accordance with ISA 450,<sup>12</sup> is in fact indicative of fraud. The Fraud TF proposes a consequential amendment to ISA 450 to include such a requirement leveraging the first sentence of paragraph 36 of extant ISA 240. (See **Agenda Item 3–C**, conforming and consequential amendments to paragraphs 5A of ISA 450 and the related application material)

#### *I-F – Transparency on Fraud Related KAMs in the Auditor’s Report*

26. The Fraud TF reaffirmed the direction of requiring the auditor to apply a fraud lens to the ‘filtering mechanism’ used in ISA 701<sup>13</sup> when determining whether matters communicated with TCWG are KAMs related to fraud in accordance with the requirements of proposed ISA 240 (Revised). (See paragraphs 66–69 and related application material in **Agenda Item 3–A**)

#### *I-G – Audit Documentation*

27. The Fraud TF reaffirmed the direction it took on documentation requirements considered by the Board in the June 2023 meeting. Specifically, the documentation requirements are based on the foundational documentation standard ISA 230<sup>14</sup> but also expand on the documentation requirements in ISA 315 (Revised 2019) and ISA 330. (See paragraph 75 in **Agenda Item 3–A**)

#### **Matters for the IAASB Consideration**

The Board is requested to provide its views:

1. Regarding the Fraud TF’s proposed changes as outlined in **Agenda Item 3–A**. See **Appendix 2** to this Agenda Item, which shows the approach for the walkthrough of **Agenda Item 3–A**.
2. As to whether there are any other matters the Fraud TF should consider in order to promote consistent practice and change auditor behavior when performing work related to fraud in an audit of financial statements.

## **Section II – Proposed Conforming and Consequential Amendments Arising from Proposed ISA 240 (Revised)**

### **Approach and Scope of the Conforming and Consequential Amendments**

28. In developing the proposed conforming and consequential amendments, the Fraud TF applied the CUSP Drafting Principles and Guidelines that address conforming and consequential amendments to the ISAs.<sup>15</sup> In doing so, the Fraud TF limited the proposed amendments to the extent necessary in order to resolve actual or perceived inconsistencies and to maintain the coherence with the overall body of standards.
29. In identifying the scope of the paragraphs affected by the conforming and consequential amendments, the Fraud TF considered the entire body of the IAASB’s authoritative pronouncements,

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<sup>12</sup> ISA 450, *Evaluation of Misstatements Identified During the Audit*

<sup>13</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

<sup>14</sup> ISA 230, *Audit Documentation*

<sup>15</sup> See Section 14 “Conforming and consequential amendments to ISAs” of the [CUSP Drafting Principles and Guidelines](#).

except for:

- (a) ISRE 2410.<sup>16</sup> ISRE 2410 is still in a pre-clarity format and this standard has not been updated for conforming amendments in relation to other recent projects of the IAASB.<sup>17</sup>
- (b) The *Framework for Audit Quality*.<sup>18</sup> Consistent with previous projects undertaken by the IAASB, it is usual practice not to update the Framework for Audit Quality given it was established at a point in time, and any revisions would possibly give rise to the need for a more wholesome revision to this framework.

### Conforming and Consequential Amendments

- 30. Please refer to **Agenda Item 3–B** for the Fraud TF's deliberations about the conforming and consequential amendments to the IAASB's pronouncements as presented in **Agenda Item 3–C**.
- 31. The conforming amendments were primarily of a straightforward nature, which included:
  - Aligning with terminology used in proposed ISA 240 (Revised), for example:

Terminology Used in Proposed ISA 240 (Revised)	Context of How the Terminology Is Used in Proposed ISA 240 (Revised)
Risk(s) of material misstatement due to fraud	Term used in the context of the auditor
Fraud risk(s)	Term used in the context of the entity

- Appropriately referencing to the revised title ("ISA 240 (Revised)") and updating paragraph references from extant ISA 240 to proposed ISA 240 (Revised).
- 32. The proposed conforming and consequential amendments to ISA 700 (Revised)<sup>19</sup> and ISA 701 to address transparency in the auditor's report (which were presented to the Board in June 2023) are also incorporated into **Agenda Item 3–C**, together with additional consequential amendments to other ISAs.

### Matter for the IAASB Consideration

The Board is requested to provide its views:

- 3. Regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–C**. See **Appendix 2** to this Agenda Item, which shows the approach for the walkthrough of **Agenda Item 3–C**.

## Section III – Matters for the Explanatory Memorandum

<sup>16</sup> International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>17</sup> A revision of ISRE 2410 is already being contemplated (see consultation on the IAASB's Strategy and Work Plan for 2024–2027).

<sup>18</sup> Supplement to the Handbook of the International Quality Control, Auditing, Review and Other Assurance and Related Services Pronouncements (Volume III), *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*

<sup>19</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*



33. IAASB Staff compiled a list of key matters that will be addressed in the Explanatory Memorandum accompanying the exposure draft of proposed ISA 240 (Revised). These include, but are not limited to:
- (a) The background to the decision to revise ISA 240 (Revised), including the key issues identified to be addressed by the project, based on stakeholder input from the Discussion Paper, [\*Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit\*](#) and other research and information-gathering activities.
  - (b) The project objectives that support key public interest objectives as set out in the project proposal.
  - (c) A comparison of the changes in proposed ISA 240 (Revised) and the standard-setting actions as set out in the project proposal as well as the qualitative characteristics considered.
  - (d) Overall matters in proposed ISA 240 (Revised), including:
    - Enhancing the linkages between the proposed standard and the other ISAs with cross-referencing as appropriate.
    - Aligning the proposed standard to new or revised standards (e.g., ISA 220 (Revised),<sup>20</sup> ISA 315 (Revised 2019) and ISA 701).
    - Modernizing the proposed standard for current practice and developments in technology, including the use of automated tools and techniques.
    - Emphasizing the balance between the enhancements to the performance and reporting requirements in the proposed standard.
    - Following the CUSP Drafting Principles and Guidelines for the consistent and effective application of the standards.
  - (e) The key changes proposed in the revision of ISA 240, including:
    - Enhancing the clarity of and emphasis on the auditor's responsibilities related to fraud in an audit of financial statements.
    - Enhancing the requirements and application material that reinforce a more robust exercise of professional skepticism when performing procedures related to fraud.
    - Enhancing the requirements and application material regarding the ongoing nature of communications throughout the audit with management and TCWG about fraud-related matters.
    - Enhancing the requirements regarding risk identification and assessment by applying a "fraud lens" to the existing requirements in ISA 315 (Revised 2019).
    - Enhancing the "ramp up" requirements when the auditor identifies fraud or suspected fraud.
    - Enhancing the reporting requirements in the auditor's report associated with KAMs

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<sup>20</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

related to fraud.

- Enhancing the documentation requirements which include, among other things, the rationale for the significant judgments made by the auditor for identified and assessed risks of material misstatement due to fraud.
- (f) A description of the outreach undertaken by the Fraud TF and coordination with IESBA and IAASB Task Forces and Consultation Groups (e.g., Technology Consultation Group, AETF and PSCG).
34. In developing the questions for respondents, due consideration will be given to the qualitative standard-setting characteristics<sup>21</sup> when soliciting stakeholder feedback to facilitate the IAASB's assessment of the standard's responsiveness to the public interest.

#### **Matter for IAASB Consideration**

The Board is requested to provide its views:

4. As to whether there are any key matters, other than those noted in **Section III** above, that should be addressed in the Explanatory Memorandum.

## **Section IV – Way Forward**

35. Following the September 2023 IAASB meeting, and based on the Board's feedback, the Fraud TF will refine the drafting of proposed ISA 240 (Revised) and the conforming and consequential amendments arising from proposed ISA 240 (Revised). Such matters will be subject to further deliberation by the Board at the December 2023 IAASB meeting.
36. The IAASB Staff and the Fraud TF remain committed to continue the dialogue and collaboration with the IESBA Staff and Liaison Board Member as it relates to relevant ethical requirements and the linkages to the IESBA Code with respect to matters related to fraud. In addition, the Fraud TF will continue to liaise with other IAASB Task Forces and Consultation Groups as well as other stakeholders.
37. In December 2023, the Fraud TF intends to present to the Board an exposure draft of proposed ISA 240 (Revised) and the related proposed conforming and consequential amendments for approval.

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<sup>21</sup> See paragraph 26 of the project proposal and the Public Interest Framework (PIF) included in the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#).

## Appendix 1

### Fraud TF Members and Update on Activities Since the June 2023 IAASB Meeting

#### Fraud TF Members

1. The Fraud TF consists of the following members:
  - Julie Corden, Chair
  - William Edge
  - Josephine Jackson
  - Sachiko Kai
  - Diane Larsen
2. Information about the project can be found [here](#).

#### Fraud TF Activities

3. Since June 2023, the Fraud TF held one virtual meeting and two physical meetings over four days.

#### Outreach

4. Project specific outreach since the June 2023 IAASB meeting included the following:
  - July 2023 – The IAASB Staff and a representative of the Fraud TF met with representatives from the Public Company Accounting Oversight Board's (PCAOB) Office of the Chief Auditor. The meeting was about the proposed amendments to the PCAOB's auditing standards related to a company's noncompliance with laws and regulations in the performance of an audit.
5. In addition, the topic of fraud was specifically addressed in meetings with the stakeholders during this period as part of the general outreach program.

## Appendix 2

### Approach for the Walkthrough of Agenda Items 3–A and 3–C

The table below shows the approach for the walkthrough of proposed ISA 240 (Revised) as presented in **Agenda Item 3–A**, including the proposed conforming and consequential amendments arising from proposed ISA 240 (Revised) as presented in **Agenda Item 3–C**.

Batch No.	Subheading	Paragraphs in Agenda Items 3–A or 3–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
1	Introduction	<i>Paras. 1–15</i>	<i>Paras. A1–A16</i>	<b>Section I–A</b>
	Objectives	<i>Para. 16</i>	–	–
	Definitions	<i>Para. 17</i>	<i>Paras. A17–A22A</i>	–
2	Professional Skepticism	<i>Paras. 18–20</i>	<i>Paras. A23–A30B</i>	<b>Section I–B</b>
	The Auditor Identifies Fraud or Suspected Fraud	<i>Para. 21</i>	–	–
	Engagement Resources	<i>Para. 22</i>	<i>Paras. A30C–A33</i>	–
	Engagement Performance	<i>Paras. 23–24</i>	<i>Paras. A35–A38</i>	–
	Ongoing Nature of Communications with Management and Those Charged with Governance	<i>Para. 25</i>	<i>Paras. A40–A44</i>	<b>Section I–C</b>
3	Risk Assessment Procedures and Related Activities	<i>Paras. 26–29C</i>	<i>Paras. A45–A52E</i>	<b>Section I–D</b>
	Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control	–	–	<b>Section I–D</b>

Batch No.	Subheading	Paragraphs in Agenda Items 3–A or 3–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
	<i>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework</i>	<i>Para. 30</i>	<i>Paras. A54–A62</i>	–
<b>4</b>	<i>Understanding the Components of the Entity's System of Internal Control</i>	–	–	–
	• Control Environment	<i>Para. 31</i>	<i>Paras. A63–A73</i>	–
	• The Entity's Risk Assessment Process	<i>Para. 32</i>	<i>Paras. A74–A86</i>	–
	• The Entity's Process to Monitor the System of Internal Control	<i>Para. 33</i>	<i>Paras. A87–A89</i>	–
	• The Information System and Communication	<i>Para. 34</i>	<i>Paras. A90–A92</i>	–
	• Control Activities	<i>Para. 35</i>	<i>Paras. A92A–A94B</i>	–
	<i>Control Deficiencies Within the Entity's System of Internal Control</i>	<i>Para. 36</i>	<i>Paras. A95–A95A</i>	–
	<b>Identifying and Assessing the Risks of Material Misstatement due to Fraud</b>	<i>Paras. 40–42</i>	<i>Paras. A101–A112</i>	<b>Section I–D</b>
<b>5</b>	<b>Responses to the Assessed Risks of Material Misstatement Due to Fraud</b>	–	–	–
	<i>Designing and Performing Audit Procedures in a Manner That Is Not Biased</i>	<i>Para. 43</i>	–	–
	<i>Unpredictability in the Selection of Audit Procedures</i>	<i>Para. 44</i>	<i>Paras. A113–A115</i>	–

Batch No.	Subheading	Paragraphs in Agenda Items 3–A or 3–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
	<i>Overall Responses</i>	<i>Paras. 45–46</i>	<i>Para. A116</i>	–
	<i>Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level</i>	<i>Para. 47</i>	<i>Paras. A117–A125</i>	–
	<i>Audit Procedures Responsive to Risks Related to Management Override of Controls</i>	<i>Para. 48</i>	–	–
	• Journal Entries and Other Adjustments	<i>Paras. 49–50</i>	<i>Paras. A126–A140</i>	–
	• Accounting Estimates	<i>Paras. 51–52</i>	<i>Paras. A141–A145</i>	–
	• Significant Transactions Outside the Normal Course of Business or Otherwise Appear Unusual	<i>Para. 53</i>	<i>Para. A146</i>	–
<b>6</b>	<b>Fraud or Suspected Fraud</b>	<i>Paras. 54–63</i>	<i>Paras. A148–A161</i>	<b>Section I–E</b>
	<b>Evaluation of the Sufficiency and Appropriateness of Audit Evidence</b>	<i>Para. 64</i>	<i>Paras. A162–A166</i>	–
	<b>Auditor Unable to Continue the Audit Engagement</b>	<i>Para. 65</i>	<i>Paras. A167–A170</i>	–
<b>7</b>	<b>Implications for the Auditor’s Report</b>	<i>Paras. 66–69</i>	<i>Paras. A171–A187A</i>	<b>Section I–F</b>
<b>8</b>	<b>Written Representations</b>	<i>Para. 70</i>	<i>Paras. A188–A189</i>	–

Batch No.	Subheading	Paragraphs in Agenda Items 3–A or 3–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
	<b>Communications with Management and Those Charged with Governance</b>	<i>Paras. 71–73</i>	<i>Paras. A190–A195</i>	–
	<b>Reporting to an Appropriate Authority Outside the Entity</b>	<i>Para. 74</i>	<i>Paras. A196–A200</i>	–
	<b>Documentation</b>	<i>Para. 75</i>	<i>Para. A201</i>	<b>Section I–G</b>
<b>9</b>	<b>Appendices</b>	–		–
	<i>Examples of Fraud Risk Factors</i>	<i>Appendix 1</i>		–
	<i>Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud</i>	<i>Appendix 2</i>		–
	<i>Examples of Circumstances that May Be Indicative of Fraud</i>	<i>Appendix 3</i>		–
	<i>Additional Considerations that May Be Used by the Auditor When Selecting Journal Entries and Other Adjustments for Testing</i>	<i>Appendix 4</i>		–
	<i>Other ISAs Addressing Specific Topics that Reference Fraud or Suspected Fraud</i>	<i>Appendix 5</i>		–
<b>10</b>	<b>Conforming and consequential amendments, including:</b>	–	–	–
	<i>Consequential amendment to ISA 200</i>	–	<i>Para. A24</i>	–
	<i>Consequential amendment to ISA 250 (Revised)</i>	–	<i>Para. A6</i>	–

Batch No.	Subheading	Paragraphs in Agenda Items 3–A or 3–C		Related Discussion in this Agenda Item
		Requirement	Application Material	
	<i>Consequential amendment to ISA 450</i>	<i>Para. 5A</i>	<i>Para. A6A</i>	–
	<i>Consequential amendment to ISA 505<sup>22</sup></i>	<i>Para. 3</i>	<i>Para. A21</i>	–
	<i>Consequential amendment to ISA 700 (Revised)</i>	<i>Paras. 40(a) and 40(c)</i>	<i>Appendix</i>	–
	<i>Consequential amendment to ISA 701</i>	<i>Paras. 11 and 16</i>	<i>Paras. A8A, A18A, A21, A55, A58 and A59B</i>	–
	<i>Consequential amendment to ISA 800 (Revised)<sup>23</sup></i>	–	<i>Appendix</i>	–

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<sup>23</sup> ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*