

Public Interest Issues Table—Mapping of Key Changes Proposed in ED-240 to the Actions and Objectives in the Project Proposal that Support the Public Interest

1. This Public Interest Issues Table that accompanies the Exposure Draft of Proposed International Standard on Auditing (ISA) 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* (ED-240) maps the key changes proposed in ED-240 to the actions and objectives in the [project proposal](#) that support the public interest.
2. This **table** also highlights the following qualitative standard-setting characteristics that were at the forefront, or of most relevance, in developing ED-240:¹
 - (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).
 - (g) *Coherence* (with the overall body of ISAs, for example, by building appropriately on the relevant requirements of foundational standards (e.g., ISA 315 (Revised 2019)² and ISA 330).³

¹ Qualitative characteristics from those outlined in paragraph 26 of the project proposal and those that arose as the development work progressed. Also see the Public Interest Framework (Section “What qualitative characteristics should the standards exhibit?”) published by the Monitoring Group in July 2020 (as part of their report “[Strengthening the International Audit and Ethics Standard-Setting System](#)”).

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

³ ISA 330, *The Auditor’s Responses to Assessed Risks*

PUBLIC INTEREST ISSUES TABLE—MAPPING OF KEY CHANGES PROPOSED IN ED-240 TO THE ACTIONS AND OBJECTIVES IN THE PROJECT PROPOSAL THAT SUPPORT THE PUBLIC INTEREST

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
A. Project Objective: Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.			
<p>A.1: Introductory Paragraphs in ISA 240⁶ – Emphasis on the Auditor’s Responsibilities</p> <p>Enhance and clarify the introductory paragraphs in ISA 240 to emphasize the auditor’s responsibilities regarding fraud, including:</p> <ul style="list-style-type: none"> Considering changes and enhancements made by others in different jurisdictions in their equivalent of ISA 240 to reduce the ambiguity between the inherent limitations of an audit and the auditor’s responsibilities for fraud in an audit of financial statements. Considering whether to provide context for the auditor’s responsibilities by explaining the responsibilities of others in the financial reporting ecosystem (relevant to the financial statement audit) within the introductory 	Paras. 1–11, A1–A12	<ul style="list-style-type: none"> Reordered the introductory paragraphs (including related application material) to refer to the responsibilities of the auditor before the responsibilities of management and TCWG to describe first the role of the auditor related to fraud in an audit of financial statements, recognizing that this is an auditing standard. Moved the inherent limitations (including related application material) of an audit out of the “Responsibilities of the Auditor” into the new “Key Concepts of this ISA” section in ED-240. The intent was to decouple descriptions about inherent limitations of the audit and the auditor’s responsibilities because the inherent limitations do not diminish the auditor’s responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i> <i>Comprehensiveness</i> <i>Enforceability</i>

⁴ Proposed actions in the Project Proposal related to the development of non-authoritative guidance have been greyed out as these have not been addressed in ED-240.

⁵ The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

⁶ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

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<p>paragraphs.</p> <ul style="list-style-type: none"> Considering whether the auditor’s responsibilities should be placed prior to the description of inherent limitations of an audit. 			
<p>A.2: Application Material – Definition of Fraud</p> <p>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)).⁷</p>	Paras. A18–A20	<ul style="list-style-type: none"> Added application material that: <ul style="list-style-type: none"> Clarifies the relationship of fraud with corruption, bribery and money laundering. Indicates that certain laws, regulations or aspects of relevant ethical requirements dealing with corruption, bribery or money laundering may be relevant to the auditor’s responsibilities to consider laws and regulations in an audit of financial statements in accordance with ISA 250 (Revised). 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i> <i>Coherence</i>
<p>A.3: Requirements and Application Material – Specialized Skills</p> <p>Consider enhancing requirements and application material in ISA 240 on the need for specialized skills (including forensic skills):</p> <ul style="list-style-type: none"> Consider a new requirement and enhanced application material for 	Paras. 22–24, A33–A38	<ul style="list-style-type: none"> Added requirements that expand on relevant requirements in ISA 220 (Revised), for the engagement partner to: <ul style="list-style-type: none"> Determine that members of engagement team collectively have the appropriate competence and capabilities, including <i>appropriate specialized skills or knowledge</i> to perform risk assessment procedures, identify and assess 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Clarity and conciseness</i>

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

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<p>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:</p> <ul style="list-style-type: none"> ○ When performing risk identification and assessment. In doing so, consider how this links to the revised requirements in ISA 220 (Revised)⁸ for adequate resources for the engagement. ○ When there is identified or suspected fraud. <ul style="list-style-type: none"> ● Consider how scalability of a new requirement can be achieved by taking into the account the nature and circumstances of auditors to have access to such specialized skills, in particular, auditors of less complex entities. ● Consider how to describe “forensic skills,” in light of comments that this term is not commonly understood (i.e., clarify what may qualify as forensic 		<p>the risks of material misstatement due to fraud, design and perform further audit procedures to respond to those risks, or evaluate the audit evidence obtained.</p> <ul style="list-style-type: none"> ○ Determine that the nature, timing and extent of direction, supervision and review by considering fraud-related matters identified during the course of the audit engagement. <ul style="list-style-type: none"> ● Added application material that: <ul style="list-style-type: none"> ○ Leverages relevant guidance provided in ISA 220 (Revised) explaining that the engagement partner’s determination of whether additional engagement level resources are required is a matter of professional judgment and is influenced by the nature and circumstances of the audit engagement, taking into account any changes that may have arisen during the engagement. ○ Illustrates the scalability of the requirement through examples and by explaining that the nature, timing, and extent of the involvement of individuals with specialized skills or knowledge, such as forensic and other experts, may vary based on the nature and circumstances of the audit engagement. 	

⁸ ISA 220 (Revised), *Quality Management for An Audit of Financial Statements*

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<p>skills).</p> <ul style="list-style-type: none"> Consider changes made by others in different jurisdictions relating to the use of specialized skills. 		<ul style="list-style-type: none"> Describes forensic skills and explains how forensic skills in the context of an audit of financial statements may be used, including examples of forensic skills. 	
<p>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.</p>			
<p>B.4: Requirements and Application Material – Identifying and Assessing Risks of Material Misstatement</p> <p>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:</p> <ul style="list-style-type: none"> Developing explicit fraud considerations in risk assessment procedures. Clarifying that risk assessment procedures in ISA 240 are not separate from those in ISA 315 (Revised 2019). Enhancing the requirements to consider information obtained from acceptance and continuance when obtaining an understanding of the 	<p>Paras. 26–42, A44–A113</p>	<ul style="list-style-type: none"> Enhanced or added requirements and application material to incorporate recent changes in ISA 315 (Revised 2019) to make fraud risk identification and assessment more robust, including requirements describing the auditor’s explicit or specific fraud considerations when obtaining an understanding of the: <ul style="list-style-type: none"> Entity and its environment, and the applicable financial reporting framework; and The components of the entity’s system of internal control, including the control environment, the entity’s risk assessment process, the entity’s process to monitor the system of internal control, the information system and communication, and control activities. Restructured ED-240 to follow a similar structure as ISA 315 (Revised 2019), which helps demonstrate the integrated relationship between the two 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Comprehensiveness</i> <i>Implementability</i> <i>Coherence</i>

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<p>entity and its environment, etc.</p> <ul style="list-style-type: none"> • 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"> ○ The entity’s corporate culture. ○ Entity’s key performance indicators. ○ Employee performance measures and incentive compensation policies. ○ The entity’s risk assessment process. ○ Specific control activities to prevent and detect fraud. ○ Other information, e.g., matters the auditor is aware of based on the performance of procedures in accordance with ISA 720 		<p>standards.</p> <ul style="list-style-type: none"> • Enhanced requirements by expanding on the relevant requirements in ISA 315 (Revised 2019) for the auditor to consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present. • To align with ISA 540 (Revised)¹⁰ and to reflect the actual nature of the procedure, relocated the requirement and application material relating to the retrospective reviews from the “Responses to the Assessed Risk of Material Misstatement Due to Fraud” section to the “Risk Assessment Procedures and Related Activities” section of ED-240. • Enhanced requirements by emphasizing that the procedures performed by the auditor to obtain audit evidence for the identification and assessment of risks of material misstatement due to fraud at the financial statement and assertion levels <i>take into account fraud risk factors</i>. • Enhanced or added application material that: <ul style="list-style-type: none"> ○ Explains more precisely what the expanded requirements relating to risk identification and assessment in ED-240 are intended to cover, as well as in some cases “why” a procedure or 	

¹⁰ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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<p>(Revised)⁹ or the auditor’s knowledge obtained throughout the audit.</p> <ul style="list-style-type: none"> Updating the fraud risk factors currently included in the Appendix to ISA 240 and considering whether the fraud risk factors should rather form part of the application material. Emphasizing in ISA 240 how fraud risk factors influence the identified risks of material misstatement due to fraud at the assertion level, and therefore in designing a more precise response to such a fraud risk. Considering examples in ISA 240 to illustrate the scalability of the requirements, for example by providing examples that are more relevant to less complex entities. 		<p>action is needed.</p> <ul style="list-style-type: none"> Provides examples demonstrating how the requirements can be applied for smaller or less complex entities. <ul style="list-style-type: none"> Updated the fraud risk factors in Appendix 1 to ED-240. 	
<p>B.5: Requirements and Application Material – Engagement Team Discussion</p> <p>Enhance requirements and application material in ISA 240 to make the engagement team discussion on fraud considerations</p>	Paras. 29, A38, A48–A53	<ul style="list-style-type: none"> Enhanced requirements by clarifying that the discussion is between the engagement partner and other key engagement team members, and specifying what topics are required to be discussed, including: 	<ul style="list-style-type: none"> <i>Scalability</i> <i>Relevance</i> <i>Comprehensiveness</i> <i>Implementability</i>

⁹ ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

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<p>more robust, including:</p> <ul style="list-style-type: none"> Enhancing requirements to require specific topics to be included during the engagement team discussion. Enhancing application material in ISA 240 to explain when it may be beneficial to hold further engagement team discussion(s). Enhancing application material in ISA 240 for when it may be beneficial for specialists (including internal or external fraud specialists) to attend engagement team discussion(s). 		<ul style="list-style-type: none"> An exchange of ideas about the entity's culture, management's commitment to integrity and ethical values, the related oversight by TCWG, and fraud risk factors; and Consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan for the audit engagement. Added application material, with examples, explaining that depending on the nature and circumstances of the audit engagement and the occurrence of events or conditions, it may be beneficial to hold further engagement team discussions. Added application material explaining that the involvement and contributions of experts with specialized skills or knowledge may elevate the quality of the discussion taking place. 	<ul style="list-style-type: none"> <i>Coherence</i>
<p>B.6: Development of Non-Authoritative Guidance</p> <ul style="list-style-type: none"> Key Performance Indicators Inquiries of Management and Others Within the Entity Tailored for Fraud Considerations 			
<p>B.7: Requirements and Application Material – Responses to the Assessed</p>	Paras. 43–53, A114–	<ul style="list-style-type: none"> Added a requirement for the auditor to design and perform audit procedures in response to the assessed risks of material misstatement due to fraud 	<ul style="list-style-type: none"> <i>Relevance</i> <i>Comprehensiveness</i>

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<p>Risks of Material Misstatement</p> <p>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:</p> <ul style="list-style-type: none"> 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. 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). 	A141	<p>in a manner that is not biased towards obtaining audit evidence that may corroborate management’s assertions or towards excluding audit evidence that may be contradict such assertions. The requirement is consistent with similar requirements in ISA 315 (Revised 2019) and ISA 540 (Revised).</p> <ul style="list-style-type: none"> Clarified that irrespective of the auditor’s assessment of the risks of management override of controls, the auditor is required to design and perform audit procedures addressing journal entries, accounting estimates and significant transactions outside the normal course of business, and determine whether other audit procedures are needed in addition to those required, in order to respond to the identified risks of management override of controls. Enhanced the requirement for the auditor to review accounting estimates for “indicators of possible management bias,” by adding a requirement for the auditor to consider the audit evidence obtained from the retrospective review performed. Added application material addressing indicators of possible management bias, including relevant linkages to ISA 540 (Revised) and examples of indicators of possible management bias in how management makes the accounting estimates that may represent a risk of material misstatement due to fraud. 	<ul style="list-style-type: none"> <i>Implementability</i> <i>Enforceability</i> <i>Coherence</i>
B.8: Requirements and Application	Paras. 65,	<ul style="list-style-type: none"> Enhanced the requirement by adding that the auditor 	<ul style="list-style-type: none"> <i>Clarity and</i>

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<p>Material – Written Representations from Management</p> <p>Consider enhancing and clarifying the requirements and application material for written representations from management.</p>	A180–A181	<p>shall obtain written representations from management and, where appropriate, TCWG, about whether they have appropriately fulfilled their responsibilities for the design, implementation and maintenance of internal control to prevent or detect fraud.</p>	<p><i>conciseness</i></p>
<p>B.9: Application Material – Technology Considerations</p> <p>Enhance application material in ISA 240 to reflect and describe the use of technology to:</p> <ul style="list-style-type: none"> • Enable fraudulent activity (including cybercrime). • Perform fraud-related procedures by auditors. <p>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.</p>	<p>Paras. A5, A9, A28, A35, A51, A60, A64, A85, A97, A116, A117, A135, A139, A143, Appendix 2 and Appendix 4</p>	<p>Added application material to reflect and describe the use of technology, including:</p> <ul style="list-style-type: none"> • Examples of how fraud can be committed by management overriding controls using automated tools and techniques. • Guidance on how the auditor may use automated tools and techniques to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud. • Guidance highlighting that expertise in Information Technology systems may be considered when determining whether the engagement team has the appropriate competence and capabilities. • Guidance on the use of automated tools and techniques by the engagement team to support their discussions about susceptibility of the entity’s financial statements to material misstatement due to fraud. • Guidance and examples of automated controls that 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Clarity and conciseness</i> • <i>Implementability</i>

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		<p>prevent or detect fraud within the entity.</p> <ul style="list-style-type: none"> Guidance on the auditor’s consideration of the implication of changes to the entity’s IT environment when performing risk assessment procedures. Guidance and examples on the use of automated tools and techniques by the auditor as part of their overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, including the exercise professional skepticism. Guidance on the use of automated tools and techniques by the auditor to test journal entries. Guidance and examples on the use of automated tools and techniques by the engagement team to review accounting estimates for management bias. 	
B.10: Development of Non-Authoritative Guidance – Technology Considerations in the Current Environment			
<p>B.11: Introductory Paragraphs and Application Material in ISA 240 – Relationship Between ISA 240 and ISA 250 (Revised), and Other ISAs</p> <p>Enhance the introductory paragraphs and consider application material in ISA 240 to clarify the relationship between ISA 240 and</p>	Paras. 14, A15–A17	<ul style="list-style-type: none"> Added an introductory paragraph explaining the relationship of ED-240 with the other ISAs, including ISA 250 (Revised). Clarified that fraud constitutes an instance of non-compliance with laws and regulations, and as such, the identification of fraud or suspected fraud could give rise to additional responsibilities under law, 	<ul style="list-style-type: none"> <i>Clarity and conciseness</i> <i>Coherence</i>

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<p>ISA 250 (Revised), including:</p> <ul style="list-style-type: none"> • 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)). <p>Enhance, within the standards, the linkages between ISA 240 and the other ISAs with cross-referencing as appropriate.</p>		<p>regulation, or relevant ethical requirements.</p> <ul style="list-style-type: none"> • Added and enhanced application material explaining that fraud or suspected fraud affecting the entity, including fraud or suspected fraud that has been perpetrated by a third party, may also give rise to additional responsibilities for the auditor under law, regulation, or relevant ethical requirements which may differ or go beyond this proposed ISA and other ISAs. 	
B.12: Development of Non-Authoritative Guidance – Relationship Between ISA 240 and ISA 250 (Revised)			
B.13: Development of Non-Authoritative Guidance – Linkages Between ISAs			
<p>B.14: Requirements and Application Material – Journal Entries</p> <p>Clarify the requirements and application material in ISA 240 on the approach to testing journal entries, including:</p> <ul style="list-style-type: none"> • Considering enhancing requirements in ISA 240 to: <ul style="list-style-type: none"> ○ Clarify that the auditor’s risk assessment procedures 	<p>Paras. 37–38, 49–50, A95–A101, A124–A135, Appendix 4</p>	<ul style="list-style-type: none"> • Added requirements and related application material, for the auditor to obtain an understanding of: <ul style="list-style-type: none"> ○ How journal entries are initiated, processed, recorded, and corrected, as necessary. ○ Controls over journal entries, designed to prevent or detect fraud. <p>These requirements build on the relevant requirements in ISA 315 (Revised 2019).</p> <ul style="list-style-type: none"> • Added a requirement and related application 	<ul style="list-style-type: none"> • <i>Relevance</i> • <i>Comprehensiveness</i> • <i>Implementability</i> • <i>Enforceability</i> • <i>Coherence</i>

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<p>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.</p> <ul style="list-style-type: none"> ○ Take account of the impact of technology when testing journal entries. ○ Address the extent of testing of journal entries to respond to identified risks. • Enhancing application material to: <ul style="list-style-type: none"> ○ Clarify what the auditor’s objectives are when testing journal entries, and explain how auditors may determine the nature, timing and extent of the auditor’s procedures for journal entry testing. ○ Consider the impact of any proposed changes being made to ISA 500¹¹ (e.g., obtaining audit evidence about the completeness of the information 		<p>material, for the auditor to obtain audit evidence about the completeness of the population of all journal entries and other adjustments made in the preparation of the financial statements throughout the period.</p> <ul style="list-style-type: none"> • Strengthened the work effort related to the requirement to test journal entries and other adjustments throughout the period by changing the work effort verb from “consider” to “determine.” • Added application material that: <ul style="list-style-type: none"> ○ Clarifies why the testing of journal entries and other adjustments is performed. ○ Explains that the auditor’s design and performance of audit procedure procedures over journal entries and other adjustments may be informed by: <ul style="list-style-type: none"> ▪ Leveraging insights based on the auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control. ▪ Drawing on the experience and insight of the engagement partner or other key members of the engagement team. 	

¹¹ ISA 500, *Audit Evidence*

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used to test journal entries).		<ul style="list-style-type: none"> ○ Explains how the use of automated tools and techniques may be used by the auditor to test journal entries. • Added an appendix with additional considerations that may inform the auditor when selecting journal entries and other adjustments for testing. 	
<p>B.15: Requirements and Application Material – Presumption of Fraud Risk in Revenue Recognition</p> <p>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:</p> <ul style="list-style-type: none"> • Revising the requirement in ISA 240 to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment. • Enhancing the application material in ISA 240 to: <ul style="list-style-type: none"> ○ Highlight other account balances that may be particularly susceptible to material misstatement due to 	Paras. 41, A104, A106, A107–A112	<ul style="list-style-type: none"> • Enhanced the requirement by changing the work effort verb from “evaluate” to “determine” which types of revenue, revenue transactions or relevant assertions give rise to risks of material misstatement due to fraud, taking into account related fraud risk factors. Also, the reference to the documentation requirement, where the auditor concludes that the presumption is not applicable in the circumstances of the engagement, was removed to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment. <p>Enhanced or added application material that:</p> <ul style="list-style-type: none"> • Highlights relevant assertions and the related classes of transactions, other account balances, or disclosures that may be particularly susceptible to risks of material misstatement due to fraud. • Illustrates additional examples of circumstances where there may be greater risks of material misstatement due to fraud in revenue recognition. 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Clarity and conciseness</i>

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	Paragraph	Description	
<ul style="list-style-type: none"> ○ fraud (such as goodwill). ○ 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). ○ Describe public sector considerations. 		<ul style="list-style-type: none"> • Clarifies that the significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. Further clarifies when it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition, in the case where fraud risk factors are not significant. • Describes considerations specific to public sector entities relating to misappropriation of assets (e.g., misappropriation of funds) as a common type of fraud. 	
<p>B.16: Application Material – Analytical Procedures</p> <p>Consider enhancing and clarifying the application material in ISA 240 to emphasize the link to ISA 315 (Revised 2019) and ISA 520¹² 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.</p>	Paras. 31, 54, A54, A142–A143	<ul style="list-style-type: none"> • Enhanced requirements relating to analytical procedures at the planning and completion stages of the audit by changing the work effort verb from “evaluate” to “determine.” • Enhanced or added application material that: <ul style="list-style-type: none"> ○ Explains that, at the planning stage, the auditor may identify fluctuations or relationships when performing analytical procedures in accordance with ISA 315 (Revised 2019) that are inconsistent with other relevant information or that differ from 	<ul style="list-style-type: none"> • <i>Clarity and conciseness</i>

¹² ISA 520, *Analytical Procedures*

PUBLIC INTEREST ISSUES TABLE—MAPPING OF KEY CHANGES PROPOSED IN ED-240 TO THE ACTIONS AND OBJECTIVES IN THE PROJECT PROPOSAL THAT SUPPORT THE PUBLIC INTEREST

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
		<ul style="list-style-type: none"> ○ expected values significantly. ○ Links to the guidance in ISA 520 explaining that analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. 	
<p>B.17: Requirements and Application Material – Fraud Is Identified or Suspected</p> <p>Designate a separate section in ISA 240 for required audit procedures when fraud is identified or suspected, including:</p> <ul style="list-style-type: none"> • Developing new requirements, relocating existing requirements, or elevating existing application material to requirements. • Enhancing application material as needed. 	<p>Paras. 55–59, A7–A10, A29, A144–A157</p>	<ul style="list-style-type: none"> • Added a separate section in ED-240 for audit procedures when fraud is identified or suspected. • Added requirements, and related application material, that: <ul style="list-style-type: none"> ○ Clarifies the engagement partner’s responsibilities when fraud or suspected fraud is identified, including that the engagement partner is required to: <ul style="list-style-type: none"> ▪ Obtain an understanding of the fraud or suspected fraud to determine the effect on the audit engagement; ▪ Determine whether to perform additional risk assessment procedures, design and perform further audit procedures; and ▪ Consider the impact on other engagements. ○ Clarifies the auditor’s responsibilities when the auditor identifies a misstatement due to fraud, 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Comprehensiveness</i> • <i>Clarity and conciseness</i> • <i>Implementability</i> • <i>Enforceability</i>

PUBLIC INTEREST ISSUES TABLE—MAPPING OF KEY CHANGES PROPOSED IN ED-240 TO THE ACTIONS AND OBJECTIVES IN THE PROJECT PROPOSAL THAT SUPPORT THE PUBLIC INTEREST

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
		<p>including:</p> <ul style="list-style-type: none"> ▪ Determining whether the identified misstatement is material; and ▪ Determining the implications of the misstatement in relation to other aspects of the audit. <ul style="list-style-type: none"> ○ Clarifies the auditor's responsibilities when the auditor determines that the financial statements are materially misstated due to fraud. ○ Explains that if the auditor is unable to conclude whether the financial statements are materially misstated as a result of fraud, the auditor shall determine the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).¹³ 	
<p>B.18: Application Material – Unpredictability of Audit Procedures</p> <p>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</p>	Paras. A114–A115	<ul style="list-style-type: none"> • Enhanced the application material by adding examples of unpredictable audit procedures, including incorporating unpredictability through the use of automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation. 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Clarity and conciseness</i> • <i>Implementability</i>

¹³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

PUBLIC INTEREST ISSUES TABLE—MAPPING OF KEY CHANGES PROPOSED IN ED-240 TO THE ACTIONS AND OBJECTIVES IN THE PROJECT PROPOSAL THAT SUPPORT THE PUBLIC INTEREST

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
be scalable.			
<p>B.19: Introductory Paragraphs and Application Material in ISA 240 – Non-Material Fraud</p> <p>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).</p>	Para. A11	<ul style="list-style-type: none"> • Enhanced the application material by clarifying that identified misstatements due to fraud that are not quantitatively material may be qualitatively material depending on who perpetrated the fraud and why the fraud was perpetrated, for example, misstatements that are not material quantitatively but have been made intentionally by management to manage key performance indicators. • Clarified that the “fraud or suspected fraud requirements” in paragraphs 55–59 apply to all instances of fraud or suspected fraud identified by the auditor, irrespective of materiality, and that the auditor is required to apply some or all of those requirements before determining the implications of the fraud or suspected fraud on the audit, including whether it is inconsequential. 	<ul style="list-style-type: none"> • <i>Comprehensiveness</i> • <i>Clarity and conciseness</i>
<p>B.20: Application Material – Third Party Fraud</p> <p>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.</p>	Para. 29(a)(ii)(c), A21, A52, A80	<ul style="list-style-type: none"> • Enhanced requirements and related application material addressing third-party fraud by requiring that the engagement team discussion shall include an exchange of ideas about how assets of the entity could be misappropriated by third parties. • Added application material that: <ul style="list-style-type: none"> ○ Clarifies that fraud as defined in paragraph 18(a) of ED-240 can include an intentional act by a third party and describes generally what 	<ul style="list-style-type: none"> • <i>Comprehensiveness</i> • <i>Clarity and conciseness</i>

PUBLIC INTEREST ISSUES TABLE—MAPPING OF KEY CHANGES PROPOSED IN ED-240 TO THE ACTIONS AND OBJECTIVES IN THE PROJECT PROPOSAL THAT SUPPORT THE PUBLIC INTEREST

Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
		<p>third-party fraud is.</p> <ul style="list-style-type: none"> ○ Explains that the entity's fraud risk identification process may include an assessment of the incentives, pressures, and opportunities to commit fraud, or how the entity may be susceptible to third-party fraud. 	
<p>B.21: Requirements and Application Material – Audit Documentation</p> <p>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).</p>	Para. 70, A193	<ul style="list-style-type: none"> • Added a requirement for the auditor to document: <ul style="list-style-type: none"> ○ Key elements of the auditor's understanding in accordance with paragraphs 33–38 of ED-240. ○ Matters related to fraud or suspected fraud. • Added application material leveraging paragraphs 11 and A15 of ISA 230¹⁴ dealing with the documentation of inconsistencies with the auditor's final conclusion regarding a significant matter. 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Clarity and conciseness</i> • <i>Implementability</i> • <i>Enforceability</i>
<p>B.22: Application Material – External Confirmations</p> <p>Consider enhancing application material in ISA 240 related to fraud considerations for external confirmation procedures (e.g., when considering third party fraud), including:</p> <ul style="list-style-type: none"> • Modernizing ISA 240 for current practice and developments in 	Paras. A118–A122	<ul style="list-style-type: none"> • Added application material that: <ul style="list-style-type: none"> ○ Highlights the usefulness of external confirmations as an audit procedure and highlights that the use of external confirmation procedures may be more effective or provide more persuasive audit evidence over the terms and conditions of a contractual agreement. 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Clarity and conciseness</i>

¹⁴ ISA 230, *Audit Documentation*

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	Paragraph	Description	
<p>technology, including technology used in practice for external confirmations.</p> <ul style="list-style-type: none"> Considering the impacts of revisions to ISA 500 on ISA 240 with respect to audit evidence obtained from the external confirmation process. Revising the existing guidance when there are non-responses. Emphasizing the usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud. 		<ul style="list-style-type: none"> Clarifies the relationship with ISA 505.¹⁵ The application material includes guidance and examples that: <ul style="list-style-type: none"> Are modernized for current practice and developments in technology; and Addresses fraud considerations for external confirmation procedures. 	
B.23: Development of Non-Authoritative Guidance – Presumption of Fraud Risk in Revenue Recognition			
B.24: Development of Non-Authoritative Guidance – Using Automated Tools and Techniques to Perform Analytical Procedures			
C. Project Objective: Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures.			
C.25: Requirements and Application	Paras. 12–	<ul style="list-style-type: none"> Added an introductory paragraph, which draws on 	<ul style="list-style-type: none"> <i>Scalability</i>

¹⁵ ISA 505, *External Confirmations*

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Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
<p>Material – Professional Skepticism</p> <p>Enhance requirements and application material in ISA 240 to reinforce more robust exercise of professional skepticism when performing procedures related to fraud, including:</p> <ul style="list-style-type: none"> Enhancing requirements and application material in ISA 240 for the auditor to design and perform procedures that is not biased towards obtaining audit evidence that may be corroborative or towards excluding evidence that may be contradictory. Explaining the ‘ramp up’ of procedures when fraud is identified or suspected in the application material. 	13, 19–21, 43, A13–A14, A26–A32	<p>the approach adopted in paragraph 7 of ISA 220 (Revised), paragraph 3 of ISA 315 (Revised 2019), and (Revised) and paragraph 9 of ISA 600 (Revised).¹⁶ The paragraph clarifies that professional skepticism supports the quality of judgments made by the engagement team when exercising their professional judgment in making informed decisions about the courses of action that are appropriate in the circumstances, including when the auditor identifies fraud or suspected fraud.</p> <ul style="list-style-type: none"> Removed the reference to “notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance” to emphasize that the exercise of professional skepticism requires the auditor to, among other things, approach each audit with a “fresh pair of eyes.” Removed the reference to “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine” from the conditional requirement which deals with the authenticity of records and documents to apply a fraud lens to the principle in ISA 200,¹⁷ paragraph A24. Added a requirement for the auditor to remain alert 	<ul style="list-style-type: none"> <i>Comprehensiveness</i> <i>Clarity and conciseness</i> <i>Implementability</i> <i>Coherence</i>

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

¹⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

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Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
		<p>throughout the audit for information that is indicative of fraud or suspected fraud.</p> <ul style="list-style-type: none"> • Added a requirement for the auditor to design and perform audit procedures in response to the assessed risks of material misstatement due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management’s assertions or towards excluding audit evidence that may be contradict such assertions. • Added application material: <ul style="list-style-type: none"> ○ Explaining the relationship with relevant guidance on professional judgment in ISQM 1 and ISA 220 (Revised). ○ Related to the attribute of authenticity of records and documents, included examples of conditions that may lead the auditor to believe that a record or document is not authentic or that the terms in the document have been modified but not disclosed to the auditor. ○ Explaining how fraud, suspected fraud or alleged fraud may be identified or otherwise come to the auditor’s attention. ○ Addressed circumstances or threats to relevant ethical requirements that may be encountered at, or near the end of the audit. 	

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Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
C.26: Development of Non-Authoritative Guidance – Professional Skepticism			
D. Project Objective: Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with Those Charged with Governance (TCWG) and the reporting requirements in ISA 240 and other relevant ISAs.			
D.27: Requirements and Application Material – Transparency in the Required Communications with TCWG and in the Auditor’s Report			
<ul style="list-style-type: none"> • Enhance requirements and application material in ISA 240 to strengthen required communications with TCWG, including: <ul style="list-style-type: none"> ○ 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"> ▪ Susceptibilities to misstatement due to management bias, and corroborating inquiries of 	<p>Paras. 25, 30, 34(c) – 34(d), 35(b), 36(b), 50(a), 55, 60(c)(i), 66-68, A39–A43, A75–A78, A89–A91, A93–A94, A182–A187</p>	<ul style="list-style-type: none"> • Added an overarching requirement to communicate with management and TCWG matters related to fraud at appropriate times throughout the audit engagement. Related application material highlights that the appropriate timing of the communications may vary depending on the significance and nature of the fraud-related matters and the expected action(s) to be taken by management or TCWG. • Enhanced requirements and application material related to making inquiries of TCWG about certain fraud related matters, when obtaining an understanding of the entity’s system of internal control. • Enhanced the requirement addressing inconsistent responses to inquiries of management or TCWG by expanding on the relevant requirement in ISA 500. 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Implementability</i> • <i>Coherence</i>

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Proposed Actions in the Project Proposal (Ref. Section VI, paragraph 25) ⁴	Key Changes Proposed in ED-240		Qualitative Standard-Setting Characteristics Considered ⁵
	Paragraph	Description	
<p>management with TCWG.</p> <ul style="list-style-type: none"> ▪ The auditor’s evaluation of the entity’s components of internal control (when performing risk assessment procedures in accordance with ISA 315 (Revised 2019)). ○ Enhancing the requirements in ISA 240 for the auditor to assess whether the remediation measures taken by management and TCWG for identified or suspected fraud are appropriate. ○ Enhancing the requirements in ISA 240 to emphasize the ongoing nature of communications with TCWG about fraud throughout the audit. ○ Clarifying in the application material of ISA 240 that effective participation by TCWG is influenced by their 		<ul style="list-style-type: none"> • Added requirements and related application material, if the auditor identifies fraud or suspected fraud, for the auditor to: <ul style="list-style-type: none"> ○ Make inquiries about the matter with an appropriate level of management that is at least one level above those involved, and, when appropriate in the circumstances, TCWG. ○ If the entity has implemented remediation measures to respond to the matter, evaluate whether they are appropriate in the circumstances. • Added application material that: <ul style="list-style-type: none"> ○ Emphasizes that robust two-way communication between management or TCWG and the auditor assists in the identification of risks of material misstatements due to fraud. ○ Explains that the extent of auditor’s communications with management and TCWG depends on the fraud-related facts and circumstances of the entity, as well as the progress and outcome of the fraud-related audit procedures performed in the audit engagement. ○ Clarifies that the effectiveness of the oversight 	

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	Paragraph	Description	
independence from management and their ability to objectively evaluate the actions of management.		by TCWG is influenced by their objectivity, including independence from management, and their familiarity with the controls management has put in place to prevent or detect fraud.	
<ul style="list-style-type: none"> • Explore¹⁸ 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: <ul style="list-style-type: none"> ○ 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"> ▪ Additional outreach with investor groups as well as other relevant stakeholders about the need for more 	Paras. 61–64, A162–A179	<ul style="list-style-type: none"> • Added a separate section in ED-240 (Implications for the auditor’s report) to emphasize the importance of transparency in the auditor’s report related to fraud. • Added requirements and application material that expand on ISA 701¹⁹ and strengthen the requirements for the auditor to report key audit matters related to fraud, including requirements for the auditor to: <ul style="list-style-type: none"> ○ Determine, from the matters related to fraud communicated with TCWG, those matters that required significant auditor attention in performing the audit. ○ Determine, from the matters which required significant auditor attention in performing the audit, were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. 	<ul style="list-style-type: none"> • <i>Scalability</i> • <i>Relevance</i> • <i>Implementability</i> • <i>Enforceability</i> • <i>Coherence</i>

¹⁸ 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 TF and the Board before possible actions can be proposed.

¹⁹ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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	Paragraph	Description	
<p>transparency in the auditor's report, and how this can be done.</p> <ul style="list-style-type: none"> ▪ Consideration of changes made by others in different jurisdictions. ○ Considering revisions to clarify the interaction of key audit matters and fraud-related matters. 		<ul style="list-style-type: none"> ○ Use an appropriate subheading that clearly describes that the matter relates to fraud, in the Key Audit Matters section of the auditor's report. ○ If there are no key audit matters related to fraud to communicate in the Key Audit Matters section of the auditor's report, add a statement to that regard. • The application material steers the auditor to communicate fraud related matters as a key audit matter by clarifying that: <ul style="list-style-type: none"> ○ Matters related to fraud are often matters that require significant auditor attention; and ○ As users of financial statements have highlighted their interest in matters related to fraud, these matters are ordinarily of most significance in the audit of the financial statements of the current period and therefore are key audit matters. 	

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**International Auditing
and Assurance
Standards Board**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.iaasb.org