Hong Kong Institute of
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香港會計師公會

Key Impacts: HKSA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

A summary of the key changes and impacts for audits of financial statements

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The HKICPA's Standard Setting Department welcomes your comments and feedback on this document, which should be sent to commentletters@hkicpa.org.hk.

On 8 July 2025, the International Auditing and Assurance Standards Board (IAASB) issued International Standard on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* including conforming and consequential amendments to other ISAs. The revised standard is effective for audits of financial statements for periods beginning on or after 15 December 2026. It clarifies the auditor's responsibilities, emphasizes the application of a "fraud lens" in risk assessment, enhances requirements for responding to identified risks and provides greater transparency in the auditor's reports.

On 28 October 2025, the AASC issued HKSA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* which is fully converged with ISA 240 (Revised). HKSA 240 (Revised) includes additional local guidance presented in footnotes and an appendix and has the same effective date as ISA 240 (Revised). The table on the following pages summarizes the major changes to HKSA 240 (Revised) compared with the extant standard and highlights their ***key impacts on auditors***. The discussions in this document are not exhaustive and should not be viewed as a substitute for reading the HKSA 240 (Revised) and the related documents in full. Auditors should read HKSA 240 (Revised) to understand the implications for their audit engagements and to apply professional judgment in evaluating the impact based on specific facts and circumstances.

HKSA 240 (Revised): Major changes and their key impacts

Area	Key Changes in HKSA 240 (Revised)	Implications for Auditors
Auditor's responsibilities	The description of the auditor's responsibilities relating to fraud in an audit of financial statements remains unchanged but has been **relocated** to a more prominent position at the beginning of the revised standard. In addition, the description of the auditor's responsibilities has been **separated** from the discussion of the inherent limitations of an audit to avoid any perception that the auditor's responsibilities regarding fraud are reduced due to those limitations. This allows each concept to be conveyed distinctly and clearly. The revised standard also clarifies that inherent limitations do not diminish the auditor's responsibilities 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.	Auditors must have a clear understanding that their responsibilities regarding fraud or suspected fraud and response are not reduced due to the inherent limitations of an audit. Inherent limitations are not a justification for the auditor to be satisfied with less than persuasive audit evidence.
Professional skepticism	The following principles and key concepts in the extant standard are **removed** as they could potentially undermine the exercise of professional skepticism. • "notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance". (Ref.: Paragraph 19 of HKSA 240 (Revised); Paragraph 13 of the extant HKSA 240) • "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." which deals with authenticity of records and documents. (Ref.: Paragraph 22 of HKSA 240 (Revised); Paragraph 14 of the extant HKSA 240)	Auditors must approach each engagement with heightened professional skepticism and without bias from prior experiences, even if previous audits have not raised significant concerns about management or those charged with governance (TCWG). Auditors must maintain an objective and questioning mindset, rather than relying on established habits, expectations, or personal familiarity. The removals aim to focus the auditor's attention on the current engagement and encourages the auditor to approach each audit with a "fresh pair of eyes", thereby supporting the appropriate exercise of professional skepticism. Auditors must evaluate evidence and management's representations on their own merits, without assumptions guided by previous honesty or perceived integrity.
	A new requirement is introduced to require the auditor to **remain alert** throughout the audit for information indicating fraud risk factors that may be indicative of fraud or suspected fraud, including when performing audit procedures near the end of the audit when time pressures to complete the	Auditors will need to exercise continuous professional skepticism and maintain heightened awareness for new or emerging fraud risk factors for the entire duration of the audit engagement—including when performing completion

	audit engagement may exist. (Ref.: Paragraphs 20 and A29 of HKSA 240 (Revised))	procedures. Auditors must clearly document how they considered and responded to the fraud risk factors throughout the audit, not just during the initial risk assessment.
	A new **stand-back** requirement is added–building on the stand-back requirement in HKSA 330, *The Auditor's Responses to Assessed Risks*–that requires the auditor to evaluate, before concluding the audit, whether the assessment of the risks of material misstatement due to fraud remain appropriate and whether sufficient appropriate audit evidence has been obtained to respond to the assessed risks of material misstatement due to fraud. (Ref.: Paragraph 54 of HKSA 240 (Revised))	Auditors will need to, before concluding the audit, reassess whether their assessment of risks of material misstatement remain appropriate in light of all audit evidence obtained during the engagement. This requires a holistic evaluation to determine if the risks of material misstatement due to fraud have been properly addressed and if additional procedures are needed before reaching a conclusion. Auditors must explicitly document their reassessment process and rationale for concluding that sufficient appropriate audit evidence has been obtained in response to fraud risks identified earlier in the audit.
Management override of controls	The revised standard states explicitly that risks arising from management's ability to override controls are required to be treated as **significant risks** of material misstatement due to fraud at the financial statement level. In addition, the auditor is required to determine whether such risks give rise to additional risks of material misstatement due to fraud at the assertion level. (Ref.: Paragraph 40 of HKSA 240 (Revised))	Auditors must always treat risks arising from management's ability to override controls as significant risks of material misstatement due to fraud at the financial statement level, regardless of size of the entities. Auditors need to be aware of this change as the extant standard does not specify at what level the risk arising from management's ability to override controls is assessed. This explicit requirement means that auditors must design and perform audit procedures that directly respond to management override at the financial statement level, such as reviewing journal entries, accounting estimates, and significant unusual transactions outside the normal course of operations. Auditors must also assess whether the significant risk at the financial statement level creates additional risks of material misstatement due to fraud at the assertion level, such as particular accounts, transactions, or disclosures that may be especially vulnerable to management override.

Presumption of fraud risk in revenue recognition	Aligning with the extant HKSA 240, the revised standard allows the auditor to rebut the presumption of fraud risk in revenue recognition. However, it 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 misstatements due to fraud in revenue recognition. Examples of limited circumstances are provided where rebuttal may be appropriate – • Leasehold revenue from a single unit of rental property, or multiple rental properties, with a single tenant. Based on the risk assessment procedures performed, the auditor determined that leasehold revenue **is not a key performance indicator** for the lessor as it is **predictable and stable**. Therefore, there are **no significant incentives or pressures** related to leasehold revenue. The auditor also determined that the accounting is outsourced to an independent asset management company such that there are **no significant opportunities** for management to **manipulate** leasehold revenue. • **Simple or straightforward ancillary revenue sources**, which are determined by fixed rates or externally published rates (e.g., interest or dividend revenue from investments with level 1 inputs). Based on the risk assessment procedures performed, the auditor determined that management's **key performance indicators do not relate** to interest or dividend revenue from investments such that there are **no significant incentives or pressures** related to the interest or dividend revenue from investments. The auditor also determined that the transactions are recorded in a **highly automated system** with **no significant opportunities** for management to **manipulate** the interest or dividend revenue from investments. (Ref.: Paragraphs A122-A123 of HKSA 240 (Revised))	Auditors must presume there are risks of material misstatements due to fraud in revenue recognition and only consider rebutting this presumption in very limited and well-justified circumstances, such as where the nature of the revenue stream is not relevant to the key performance indicators and demonstrates very low incentives, pressures, and opportunities for fraud. Auditors should conduct a thorough risk assessment of each revenue stream to determine if presumption of risks of material misstatements due to fraud is applicable. If an auditor concludes that the presumption that risks of material misstatements due to fraud related to revenue recognition for a specific revenue stream can be rebutted, justification should be clearly documented.
Engagement team discussion	**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:	Engagement partner and other key engagement team members must hold discussions covering specific required topics. These discussions foster the sharing of insights and

	• An exchange of ideas about the entity's culture, management's commitment to integrity and ethical values, the related oversight by TCWG, fraud risk factors, which types of revenue, revenue transactions or relevant assertions may give rise to the risks of material misstatements due to fraud in revenue recognition and how management may be able to override controls; and • Consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan, including fraud that has occurred at the entity during the current or prior years. (Ref.: Paragraphs 29, A43, A53-A59 of HKSA 240 (Revised))	facilitate robust professional judgment across the team. These discussions must be documented, capturing not only the topics covered, but also the perspectives shared, any professional judgments made and the conclusions reached.
Ongoing communication throughout the audit	A **new overarching** requirement is added that requires auditors to communicate with management and TCWG matters related to fraud at appropriate times throughout the audit engagement. (Ref.: Paragraphs 25 and A46 of HKSA 240 (Revised)) **Enhanced** requirements to make inquiries of management and TCWG about certain fraud related matters when obtaining an understanding of the entity, which include, among other matters, inquiring of TCWG about whether they are aware of deficiencies in the system of internal control related to the prevention and detection of fraud, and the remediation efforts to address such deficiencies. If the auditor identifies fraud or suspected fraud, the standard requires inquiries about the matter with the level of management that is at least one level above those involved, and, when appropriate in the circumstances, with TCWG. (Ref.: Paragraphs 32(b)- 32(c), A80-A82 of HKSA 240 (Revised))	Auditors will need to plan for more proactive and ongoing discussions regarding fraud risk factors, fraud responses, and identified issues and not just make a single communication at the end of the audit. Auditors must ensure that these communications are properly documented, capturing when and how matters were discussed and any responses provided by the management or TCWG.
Responding to fraud or suspected fraud	A new separate section "Fraud or Suspected Fraud" is introduced in the revised standard for audit procedures when fraud or suspected fraud is identified. In order to determine the effect on the audit engagement, the standard requires the auditor to obtain an understanding of all instances of fraud or suspected fraud, by: (a) Making inquiries about the matters with TCWG; (b) If the entity has a process to investigate the matters, evaluate whether it is appropriate in the circumstances; and	Auditors must now carry out specific procedures to obtain an understanding of all instances of identified fraud or suspected fraud, including making inquiries with TCWG, evaluating the entity's investigation process, and assessing any remedial actions taken. Only after completing these steps are auditors able to exercise professional judgment to decide whether the instance is clearly inconsequential. If the instance is determined to be clearly inconsequential (e.g. misappropriation of immaterial assets by employees, as

	(c) If the entity has implemented remedial actions to respond to the matters, evaluate whether they are appropriate in the circumstances. To address proportionality, the standard establishes a threshold which allows the auditor to exclude from further consideration fraud or suspected fraud that is determined to be "clearly inconsequential". (Ref.: Paragraphs 55-58, A7-A11 of HKSA 240 (Revised)) The revised standard also clarifies that the engagement partner is responsible for evaluating the impact on the audit approach, with input from the engagement team as needed.	illustrated in HKSA 240.A162), it may be excluded from further audit procedures, and the rationale and basis for this determination must be clearly documented. Where the instance is determined to be not clearly inconsequential, the engagement partner is required to determine further work effort that is appropriate for the circumstances, including additional risk assessment procedures, further audit procedures, additional responsibilities under law and regulations or relevant ethical requirements about the entity's non-compliance with laws or regulations. The engagement partner must also consider the impact on prior period audits if applicable. The "clearly inconsequential" threshold is designed to make the new requirements for responding to fraud or suspected fraud more scalable and proportionate, which in turn supports the auditors to focus their efforts by limiting extensive procedures on immaterial fraud matters.
Transparency on fraud-related responsibilities in the auditor's report	As a result of the enhanced requirements regarding communication with TCWG set out in paragraphs 65 and 66 of HKSA 240 (Revised), **consequential amendments** are made to HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* to require disclosure in the **Auditor's Responsibilities** section of the auditor's report that, any identified fraud or suspected fraud, and other matters related to fraud that are in the auditor's judgment, relevant to the responsibilities of TCWG, that are identified during the audit, as shown below (Ref.: Consequential amendments to paragraph 40 of HKSA 700 (Revised) in HKSA 240 (Revised))	Auditors will need to update the auditor's report templates, communication protocols, and audit workpapers to reflect the enhanced requirements on communication with TCWG regarding fraud-related matters identified during the audit and report in the auditor's report that the auditor has fulfilled the relevant responsibilities.

	Extract of the auditor's report **Auditor's Responsibilities for the Audit of the Financial Statements** … We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings that we identify during our audit, including any: • ~~s~~Significant deficiencies in internal control ~~that we identify during our audit~~; • Identified fraud or suspected fraud; and • Other matters related to fraud that are, in our judgment, relevant to the responsibilities of those charged with governance.	
Transparency on key audit matters related to fraud in the auditor's report	A **new** requirement is added that when applying HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, the auditor is required to communicate key audit matters (KAM) by using an appropriate subheading that clearly describes that the matter relates to fraud. (Ref.: Paragraphs 62 of HKSA 240 (Revised))	HKSA 701 applies to audits of listed entities' financial statements; circumstances when the auditor decides to communicate KAM; or when the auditor is required by law or regulation to communicate key audit matters in the auditor's report. Where fraud-related KAMs arise, the auditor's report will feature two separate sections with appropriate subheadings under the Key Audit Matters: one for non-fraud-related key audit matters and another specifically for fraud-related key audit matters. Auditors will need to maintain robust documentation clearly supporting the rationale for treating a matter as a KAM, as well as the specific linkage to fraud, in order to demonstrate compliance with the requirement.

Implementation support

In adopting ISA 240 (Revised) as HKSA 240 (Revised), the AASC has included Appendix 6 "Additional Local Guidance on Reporting Fraud to an Appropriate Authority Outside the Entity" to offer supplementary guidance to auditors on circumstances in which to report to third parties who have a proper interest in receiving such information.

The IAASB has made available the following support materials to assist auditors in the implementation process:

- *Basis for Conclusions*: Provides background for and a summary of the rationale for the IAASB's conclusions.

- *Fact Sheet*: An overview of ISA 240 (Revised) and a highlight of changes.
- *Professional Skepticism in the Fraud and Going Concern Standards*: Highlights the IAASB's efforts to reinforce professional skepticism within the revisions of the standards.
- Video series: What Auditors Need to Know About the New Fraud Standard
  - Introducing the Revised Fraud Standard
  - A Shaper Focus on Risk Assessment
  - A More Robust Response to Identified or Suspected Fraud
  - Enhanced Transparency in Auditor's Report

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