

The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

International Standard on Auditing (ISA) 240 (Revised)

FACT SHEET JULY 2025

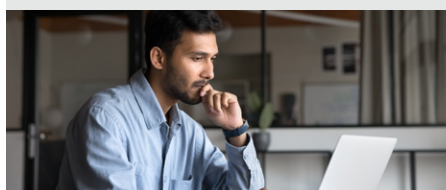
WHAT

ISA 240 (Revised) includes new and revised requirements and application material that address the **auditor's responsibilities relating to fraud** in an audit of financial statements.



HOW

ISA 240 (Revised) **strengthens** and **clarifies** the auditor's responsibilities relating to fraud in an audit of financial statements.



WHEN

The revised standard becomes **effective** for audits of financial statements for periods beginning on or after **December 15, 2026**.

15 DECEMBER 2026

EFFECTIVE DATE

WHY WAS THE FRAUD STANDARD REVISED?

In recent years, several high-profile corporate failures have intensified public scrutiny on the auditors' responsibilities relating to fraud. Although the primary responsibility for preventing and detecting fraud rests with management and those charged with governance (TCWG), auditors also play an important role. Specifically, the auditor is responsible for planning and performing an audit of financial statements to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement due to fraud.

The IAASB has revised and modernized ISA 240 to better align the standard with evolving public expectations, emerging fraud risk factors, and to ensure that the standard remains fit-for-purpose in an increasingly complex environment.

WHAT OUTCOMES DOES THE REVISED STANDARD AIM TO ACHIEVE?

As set out in the [project proposal](#), the project's objectives were to:

- Clarify the **role and responsibilities of the auditor for fraud** in an audit of financial statements.
- Promote **consistent behavior** and **facilitate effective responses** to identified risks of material misstatement (ROMMs) due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary.
- Enhance ISA 240 to reinforce the importance, throughout the audit, of the **appropriate exercise of professional skepticism** in fraud-related audit procedures.
- Enhance **transparency on fraud-related procedures** where appropriate, including strengthening **communications** with TCWG and the **reporting** requirements in ISA 240 and other relevant ISAs.

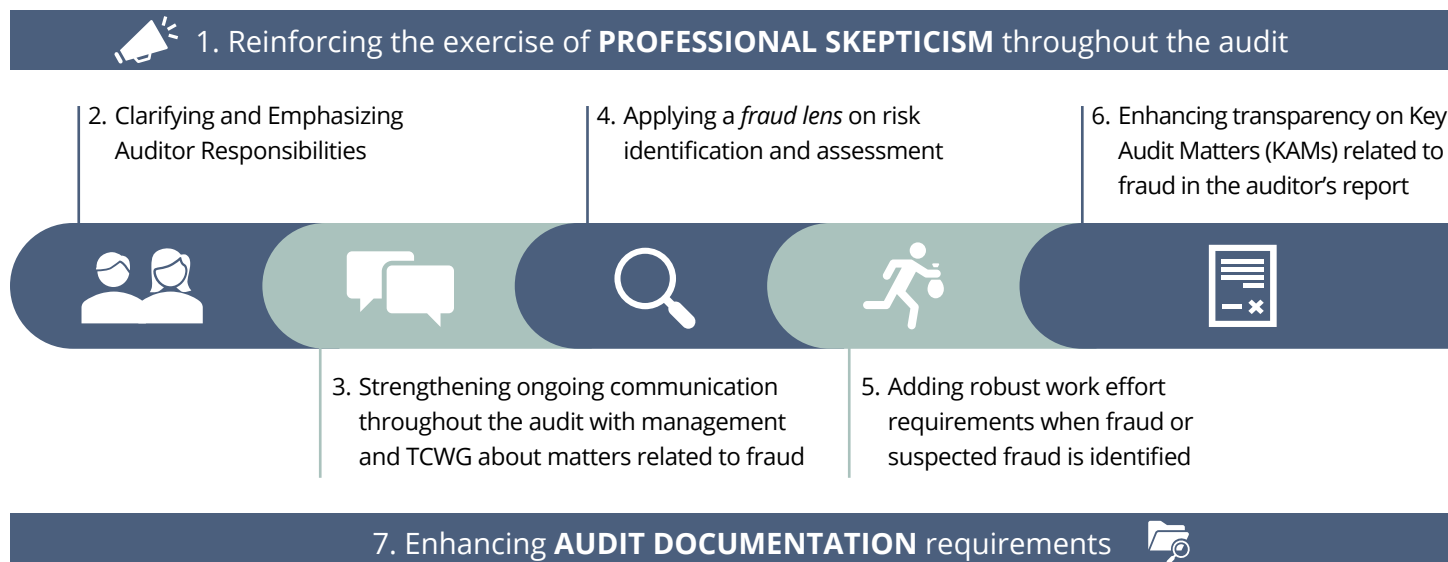
WHICH AUDITS DOES THE STANDARD APPLY TO?

ISA 240 (Revised) applies to **audits of the financial statements of all entities**, regardless of their size, type or complexity. For audits of financial statements of listed entities, the standard includes enhanced reporting requirements related to fraud. These requirements expand on the foundational requirements in ISA 701 relating to the communication of key audit matters (KAMs).



PROMOTING CONSISTENT PRACTICE AND CHANGING AUDITOR BEHAVIOR

The diagram below highlights **seven key areas** of the standard that have been enhanced with the aim of promoting consistent practice and changing auditor behavior.



1. Reinforcing the Exercise of Professional Skepticism Throughout the Audit

ISA 240 (Revised) reinforces the importance of appropriately exercising professional skepticism throughout the audit by introducing new requirements to:

- Remain alert for previously unidentified fraud risk factors and indications of fraud or suspected fraud; and
- Design and perform procedures in a manner that is not biased towards obtaining audit evidence that either corroborates or contradicts management's assertions.

In addition, the IAASB removed language in the revised standard that could potentially undermine the exercise of professional skepticism.

Finally, a "stand-back" requirement was added—building on the stand-back requirement in ISA 330—that requires the auditor to evaluate, before the conclusion of the audit, whether the assessments of the ROMMs due to fraud remain appropriate and whether sufficient appropriate audit evidence has been obtained to respond to the assessed ROMMs due to fraud.



2. Clarifying and Emphasizing Auditor Responsibilities



ISA 240 (Revised) clarifies and strengthens how the auditor's responsibilities are presented. The description of the auditor's responsibilities was moved to the beginning of the standard, ahead of those of management and TCWG, to enhance clarity by presenting the auditor's responsibilities more prominently. Moreover, the description of the auditor's responsibilities was separated from the inherent limitations of an audit, ensuring these two concepts are communicated distinctly and clearly. Finally, the revised standard clarifies that inherent limitations do not diminish the auditor's responsibilities or justify accepting less than persuasive audit evidence.

3. Strengthening Ongoing Communication throughout the Audit with Management and Those Charged with Governance about Matters Related to Fraud



ISA 240 (Revised) includes a new overarching requirement to communicate with management and TCWG matters related to fraud at appropriate times throughout the audit engagement. The revised standard also includes enhanced requirements related to making inquiries of management and TCWG about certain fraud related matters when obtaining an understanding of the entity.



4. Applying a Fraud Lens on Risk Identification and Assessment

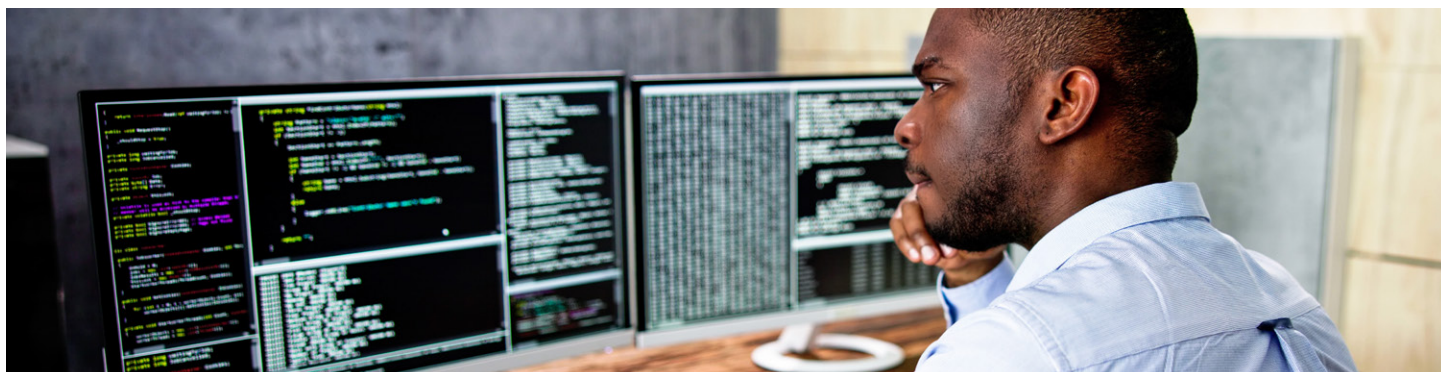


ISA 240 (Revised) includes new requirements and guidance that drive the auditor to design and perform robust risk assessment procedures. These requirements expand on how the relevant requirements in ISA 315 (Revised 2019) are applied with a fraud lens. The structure of the risk assessment section closely aligns to the structure of ISA 315 (Revised 2019), demonstrating the integrated relationship of the two standards. In addition, the revised standard strengthens the auditor's work effort by:

- Introducing a requirement to obtain an understanding of the entity's whistleblower program.
- Strengthening the requirements and application material related to the presumption of fraud risk in revenue recognition by shifting the focus away from the auditor developing a rebuttal and by emphasizing the limited circumstances when it may be appropriate to rebut the presumption.
- Adding guidance that explains the relationship between fraud risk factors, inherent risks and control risks.

5. Adding Robust Work Effort Requirements When Fraud or Suspected Fraud Is Identified

ISA 240 (Revised) introduces a separate section for audit procedures when fraud or suspected fraud is identified. The standard requires the auditor to obtain an understanding of all instances of fraud or suspected fraud in order to determine the effect on the audit engagement. 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”. The 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.



6. Enhancing Transparency on Key Audit Matters Related to Fraud in the Auditor's Report

ISA 240 (Revised) introduces, in a new separate section, requirements that expand on ISA 701 and strengthen the requirements for the auditor to communicate KAMs related to fraud. The application material steers the auditor to communicate fraud related matters as a KAM by clarifying that:



- 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 KAMs



7. Enhancing Audit Documentation Requirements

ISA 240 (Revised) includes enhanced documentation requirements. The auditor is, for example, required to document key elements of the auditor's understanding, the sources of information from which the understanding was obtained, and the risk assessment procedures performed. If fraud or suspected fraud is identified, the auditor is required to document the results of audit procedures performed, the significant professional judgment made, and the conclusion reached.



ADDITIONAL CHANGES



Linkages to Other ISAs

The linkages to other ISAs have been strengthened in ISA 240 (Revised). For example, a new introductory paragraph was added to explain the relationship between ISA 240 (Revised) and other ISAs.

In addition, the revised standard clarifies that fraud ordinarily constitutes an instance of non-compliance with laws and regulations, and as such, the identification by the auditor of fraud or suspected fraud gives rise to additional responsibilities for the auditor in accordance with ISA 250 (Revised).



Responses to Assess ROMMs due to Fraud

The auditor's responses to assessed ROMMs due to fraud have been strengthened by enhancing the requirements and application material, specifically related to addressing risks of management override of controls (i.e., testing journal entries), reviewing accounting estimates for indicators of possible management bias and incorporating unpredictability into audit procedures).



Public Sector

New considerations were added to assist with the application of the requirements of the revised standard in audits of financial statements of public sector entities.



Technology

New application material was added to highlight the dual impact of technology on fraud. It alerts the auditor about how entities may use technology to enable fraudulent activity and highlights how auditors can leverage technology to enhance the quality of their fraud-related procedures.

SCALABILITY AND PROPORTIONALITY

To support scalable application for audits of all sizes and complexities, the revised standard provides application material and examples to support scalable and proportionate application to smaller or less complex entities.



RESOURCES AND TOOLS

Further implementation support materials are available on the [IAASB website](https://www.iaasb.org).

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