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Basis for Conclusions

ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report and AUASB 2025-6 Amendments to Australian Auditing Standards

Prepared by the Auditing and Assurance Standards Board



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards*

Basis for Conclusions ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 *Amendments to Australian Auditing Standards* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the standards by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 240 or AUASB 2025-6.

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BASIS FOR CONCLUSIONS

ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* and AUASB 2025-6 Amendments to Australian Auditing Standards

Background

1. In accordance with its mandate under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's Strategic Direction, the AUASB's policy is to adopt the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), unless there is a compelling reason not to do so. In addition, the AUASB is required to make such amendments to the ISAs to ensure the Australian Auditing Standards both exhibit and conform to the Australian regulatory environment and statutory requirements. Further amendments are made where there are compelling reasons to do so and are made with a public interest focus.
2. The AUASB has issued ASA 240. ASA 240 is consistent with ISA 240 (Revised 2025), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, issued by the IAASB in July 2025. Refer paragraphs 10-11 of this Basis of Conclusions document for further detail on the compelling reason amendments.
3. In December 2021, the IAASB approved a project proposal that addresses the revision of extant ISA 240 and the conforming and consequential amendments to other relevant ISAs, to enhance or clarify the auditor's responsibilities on fraud in an audit of financial statements. The project objectives that support the public interest included revising extant ISA 240 to:
 - Clarify the role and responsibilities of the auditor relating to fraud in an audit of financial statements;
 - Promote consistent behaviour and facilitate effective responses to identified risks of material misstatement due to fraud through more robust requirements and enhancing application material where necessary;
 - Reinforce the importance, throughout the audit, of the appropriate exercise of professional scepticism in fraud-related audit procedures; and
 - Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with those charged with governance (TCWG) and the auditor reporting requirements.
4. The IAASB released an exposure draft of proposed revised ISA 240 in February 2024 and within the same month, the AUASB exposed the IAASB exposure draft to gather feedback from Australian stakeholders to inform its submission to the IAASB. Comments letters from stakeholders are available on the AUASB website.
5. The AUASB also sought input by hosting a series of virtual roundtable meetings with stakeholders representing assurance providers from medium and large audit firms, the public sector and the professional accounting bodies across Australia.
6. The comment period closed on 21 May 2024. The AUASB received written comment letters from:
 - [Australasian Council of Auditors General](#)
 - [Pitcher Partners](#)
 - [Deloitte Touche Tohmatsu Australia](#)
 - [KPMG Australia](#)

7. The AUASB considered all submissions received and provided a [written submission to the IAASB](#) in June 2024.
8. The AUASB monitored the development of ISA 240 to ensure that the AUASB's issues raised were appropriately addressed. Further details regarding the development of ISA 240 and how the IAASB addressed feedback on their exposure draft can be found in the [ISA 240 Basis for Conclusions](#) on the IAASB's website.

Substantive Comments raised by Australian Respondents on Exposure

9. The AUASB received feedback from respondents on the Australian exposure of ISA 240 with the substantive comments included in the submission to the IAASB relating to:
 - (a) Transparency in the auditor's report and by directors; and
 - (b) Application to clearly trivial fraud or suspected fraud.

The Appendix details substantive feedback received from Australian stakeholders and how those matters have been addressed in the final ISA 240.

Compelling reasons assessment

10. The adoption of international standards and any changes to adopted standards are governed by the [AUASB Policy and Process for International Conformance and Harmonisation of Standards](#) (Harmonisation Policy). The policies and procedures incorporate "compelling reasons" tests which must be met to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. Further to paragraph 1 of this Basis of Conclusions document, compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate having regard to the public interest in Australia.
11. The AUASB has made the following compelling reason additions upon adoption of ISA 240 in Australia as ASA 240:
 - (a) For an audit engagement under the *Corporations Act 2001* (the Act), resigning from the appointment as an auditor can only be made in accordance with the provisions of the Act, including in certain circumstances, obtaining consent to resign from the Australian Securities and Investments Commission (ASIC).
 - (b) Legislation may require the auditor or a member of the audit team to maintain the confidentiality of information disclosed to the auditor, or a member of the audit team, by a person regarding contraventions or possible contraventions of the law. In such circumstances, the auditor or a member of the audit team may be prevented from communicating that information to management or TCWG in order to protect the identity of the person who has disclosed confidential information that alleges a breach of the law. In such circumstances, the auditor may consider obtaining legal advice to assist in determining the appropriate course of action and may need to consider the implications for the audit engagement.
 - (c) An auditor is required by the Act to notify ASIC if the auditor is aware of certain circumstances.

Early Adoption

12. Because of the potential confusion for users if auditors' reports for the same or similar periods within the marketplace lack consistency, the AUASB believes that if early adoption is contemplated the collective changes arising from the Going Concern, Fraud and Listed Entity and PIE projects should preferably be early adopted as a package, rather than on a piecemeal basis.

Conclusion

13. The AUASB voted to approve and issue ASA 240 and AUASB 2025-6 on 14 October 2025.
14. In reaching its conclusions the AUASB considered:
 - (a) all stakeholder feedback;
 - (b) the IAASB's due process and consideration as to whether ISA 240 should be re-exposed; and
 - (c) whether the amendments made to ISA 240 by the IAASB since exposure:
 - (i) were in response to submissions from stakeholders on the exposure draft,
 - (ii) have not changed the fundamental approach and principles on which the standard is based, and
 - (iii) did not require the re-exposure of the standard.

* * *

Appendix

How the substantive comments raised in the AUASB submission to the IAASB have been addressed in the final ISA 240

No.	Substantive comments in the AUASB submission	How addressed in the revised ISA 240 or why not an impediment to Australian standard
1	Transparency in reporting	
1.1	Replacing the heading 'Key Audit Matters Including Matters Related to Fraud' in the audit report with 'Key Audit Matters (Including Matters Related to Fraud and Error)' for consistency with the text that appears immediately after the heading. This will avoid over-emphasising the importance of fraud risk compared to risk of error.	<p><i>This matter has been addressed in revised ISA 240.</i></p> <p>The IAASB has removed the words "Including Matters Related to Fraud" in the section heading. There is a requirement in paragraph 61 is to use an appropriate subheading for each KAM that clearly describes that the matter relates to fraud sufficiently emphasises the KAMs related to fraud. Application material supports this requirement, refer 1.2 below.</p>
1.2	Including appropriate examples in the application material demonstrating that fraud related KAMs are often interlinked with KAMs related to error (e.g. a KAM related to an estimate). Otherwise, KAM related fraud risks may always be treated as stand-alone KAMs, which may drive boilerplate statements.	<p><i>This matter has been partially addressed by the IAASB. While the IAASB has not addressed the AUASB's encouragement for additional guidance, the AUASB's concern with the requirements themselves has been addressed.</i></p> <p>Combined with the change to the heading, AM paragraph A185 further explains:</p> <p><i>If a matter related to fraud is determined to be a key audit matter and there are a number of separate, but related, considerations that were of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes the matter, including that it relates to fraud.</i></p>
1.3	Some practitioners were concerned with possible litigation where a material fraud is later discovered but there was no KAM in the auditor's report. Additionally, a fraud matter may still be under investigation at the time of the audit report and communicating the matter in a KAM could create legal risk for both the company and the auditor.	<p><i>This matter has been addressed in revised ISA 240.</i></p> <p>The IAASB acknowledged respondents' comments and that the concern with respect to suspected fraud, on-going investigations and uncertain outcomes, as well as disclosing original information, and believes it is covered by ISA 701 paragraph 14(b) (which does not require a key audit matter to be disclosed in the rare circumstances where the consequence of disclosure outweighs the public interest benefits) and related application material.</p> <p>Paragraph A189 addresses cases where a KAM is not communicated in the auditor's report and includes a reference to ISA paragraph 14(b) of 701. Furthermore, application material paragraph A189 highlights that ISA 701 includes considerations and guidance on original information that may be particularly relevant in the context of communicating KAMs related to fraud.</p>

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1.4	<p>Australian practitioners expressed concern that some auditors could include boilerplate fraud related KAMs (e.g. on management override of controls) to avoid stating that there are no KAMs related to fraud to communicate.</p> <p>The AUASB suggested that where there are no KAMs related to fraud, highlighting in the auditor's report that the auditor's objective is to obtain reasonable assurance that the financial report as a whole is free of material misstatement, whether due to fraud or error.</p>	<p><i>This matter has been addressed in revised ISA 240.</i></p> <p>The IAASB has deleted the requirement to disclose when there are no KAMs related to fraud.</p>
2	Work Effort Requirements	
2.1	<p>The AUASB submission raised concerns with the proposed work effort in ED 240 where clearly trivial fraud has been identified. Instead, there could be a stand-back provision to address the possibility of an accumulation of matters that alone might be considered clearly trivial.</p>	<p><i>This matter has been partially addressed by the IAASB. The Office of the AUASB accepts the position that the stand-back will be looked at holistically within the Audit Evidence and Risk Response project currently underway.</i></p> <p>A 'clearly inconsequential' exception threshold has been added to paragraphs 55.</p> <p>The IAASB reaffirmed its position that a separate stand-back requirement is not needed given existing stand-back requirements in other ISA to consider, among other things, whether the audit evidence obtained adequately supports the auditor's risk identification and assessment and responds to assessed risks. An integrated and coherent approach to stand-back requirements across the suite of ISAs will be considered in the Audit Evidence and Risk Response project.</p>
2.2	<p>Making the requirement in paragraph 55(a) (now paragraph 54(a)) to inquire about the matter with a level of management that is at least one level above those involved, subject to any legislation that may prevent the auditor from making a direct enquiry to management, such as where the auditor is notified of a fraud or suspected fraud by an anti-corruption regulator. Indirect enquiry may be possible.</p>	<p><i>This matter has been addressed by the IAASB</i></p> <p>The IAASB has addressed this by inserting the words 'when appropriate in the circumstances' to paragraph 54(a). The IAASB considers that the determination of which level of management is appropriate is a matter of professional judgement.</p>
2.3	<p>The assessment in paragraph 56 (now paragraph 55) should be imposed on the auditor rather than the engagement partner. In practice it may be made by the engagement partner but that may not be practical in some scenarios,</p>	<p><i>This matter has partially been addressed by the IAASB. The Office of the AUASB accepts the position of the IAASB in relation to the engagement partner's responsibilities</i></p> <p>The IAASB has deliberated this matter but continues to believe that these determinations should be made by the engagement partner (other than for matters that are clearly inconsequential) due to the importance of appropriately</p>

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	such as large groups with component audits.	<p>assessing the impact of fraud or suspected fraud on the audit. The IAASB considers that this requirement is scalable and proportional and that it is appropriate for the engagement partner to use information obtained by other members of the engagement team, including component auditors in the case of a group audit, to make these determinations.</p> <p>The IAASB have included new application material paragraph at A162 reminding practitioners that in fulfilling this requirement, the engagement partner (as described in ISA 220) may obtain information from other members of the engagement team (e.g. component auditors).</p>