**STANDARDS AND EMERGING ISSUES ADVISORY GROUP MEETING**

**DISCUSSION – FRAUD CONSIDERATIONS**

**OCTOBER 30, 2026**

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## INTRODUCTION

The PCAOB's standard-setting agenda includes a project to consider how the existing fraud requirements,[1] including AS 2401, *Consideration of Fraud in a Financial Statement Audit*, ("existing PCAOB fraud requirements") should be revised to better align an auditor's responsibilities for addressing intentional acts that result in material misstatements in financial statements ("fraud") with the auditor's risk assessment, including addressing matters that may arise from developments in the use of technology.

At the October 30, 2026 meeting, members of the Standards and Emerging Issues Advisory Group (SEIAG) will discuss their views regarding certain provisions contained in ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* ("ISA 240"), and Statement on Auditing Standards (SAS) No. 151, *The Auditor's Responsibilities*

[1] The auditor's responsibilities regarding fraud are contained in several PCAOB standards, including AS 2401, *Consideration of Fraud in a Financial Statement Audit*, AS 2110, *Identifying and Assessing Risks of Material Misstatement*, AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, and AS 2810, *Evaluating Audit Results*. An overview of the existing PCAOB fraud requirements is located on the PCAOB Fraud Risk Resources webpage.

*Relating to Fraud in an Audit of Financial Statements* ("SAS 151") that go beyond existing PCAOB fraud requirements. As part of the discussion, SEIAG members will discuss their views about the following matters: (i) communicating key audit matters related to fraud; (ii) overcoming the presumption that improper revenue recognition is a fraud risk; (iii) retrospective review of accounting estimates; and (iv) other potential provisions, including potential provisions not contained in either ISA 240 or SAS 151.

This briefing paper is intended to facilitate a focused SEIAG discussion regarding these matters by providing background information and describing certain differences between ISA 240 and SAS 151 and the existing PCAOB fraud requirements.

**BACKGROUND**

Prominent corporate scandals were the driving force behind the passage of the Sarbanes-Oxley Act of 2002.[2] Throughout its history, the PCAOB has devoted substantial attention to the auditor's responsibilities regarding fraud.[3] For example, the PCAOB's foundational risk assessment standards incorporated the existing requirements for identifying and responding to fraud risks and evaluating audit results into the entire audit process. Incorporating the fraud requirements into the foundational risk assessment standards clarified that the auditor's responsibilities for assessing and responding to fraud risks are an integral part of the audit process rather than a separate, parallel process. This approach is designed to prompt auditors to make a more thoughtful and thorough assessment of fraud risks and to develop appropriate audit responses.[4]

In March 2025, ISA 240 was approved by the International Auditing and Assurance Standards Board ("IAASB") and is effective for audits of financial statements for periods beginning on or after December 15, 2026.[5] ISA 240 clarifies the auditor's responsibilities, emphasizes a fraud lens in the auditor's risk assessment and the appropriate response to identified fraud risks and provides greater transparency regarding fraud-related procedures in the auditor's report of publicly traded entities.[6]

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[2] *See, e.g.*, Senate Report 107-205, *Report of the Committee on Banking, Housing and Urban Affairs United States Senate to Accompany S.2673 together with additional views* (July 3, 2002) which mentions prominent corporate scandals considered during the passage of the Sarbanes Oxley Act, including Enron, WorldCom, Adelphia, and Global Crossing.

[3] *See* AS 2401.05, fraud is an intentional act that results in a material misstatement in the financial statements that are the subject of an audit.

[4] *See* *Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards*, PCAOB Release 2010-004 (Aug. 5, 2010).

[5] *See* ISA 240 and the Basis for Conclusions.

[6] *See* IAASB webpage for ISA 240 (July 2025).

In August 2026, the American Institute of Certified Public Accountants ("AICPA") Auditing Standards Board ("ASB") approved SAS 151, designed to strengthen audit procedures related to fraud. SAS 151 is effective for audits of financial statements for periods ending on or after December 15, 2028, and adds more specific requirements designed to enhance auditor skepticism, fraud risk assessment, documentation, communication, and responses when fraud is identified or suspected.[7]

In response to the recently issued PCAOB Release No. 2026-001, *Request for Public Comment on PCAOB Strategic Priorities*, and PCAOB Release No. 2026-005, *Request for Public Comment on PCAOB Standard Setting* commenters who addressed the topic generally supported PCAOB standard setting on fraud. Some commenters favored a more limited approach through targeted amendments taking into consideration recent amendments to the IAASB and AICPA ASB standards.[8]

**COMMUNICATING KEY AUDIT MATTERS RELATED TO FRAUD**

The IAASB noted that respondents to its exposure draft generally supported the need to enhance transparency in the auditor's report concerning matters related to fraud.[9] In response, ISA 240 provides greater transparency in the auditor's report of publicly traded entities regarding matters related to fraud.

ISA 240 and ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report,* require the auditor to determine whether there are key audit matters related to fraud that should be communicated in the audit report, and if so, to communicate them. SAS 151 does not require such communications. In determining not to require such communications the ASB conducted its own research regarding the need for such communications.[10] Excerpts from ISA 240 are included below for reference.

**Auditor's Report**

*Determining Key Audit Matters Related to Fraud*

60. In applying ISA 701,[32] the auditor shall determine, from the matters related to fraud communicated with those charged with governance, those matters that required significant

[7] *See* New Auditing Standard Clarifies and Enhances CPAs' Responsibilities Relating to Fraud in a Financial Statement Audit | News | AICPA & CIMA. The final version of the standard is expected to be posted online in October 2026.

[8] There are certain inherent differences between the ASB and IAASB standards that arise from past efforts by the ASB to minimize certain differences with PCAOB standards (for example, with respect to identifying and evaluating significant unusual transactions).

[9] *See* Basis for Conclusions for ISA 240.

[10] *See, e.g.*, ASB meeting materials for the January 2023 meeting, pages 3-4 of the AICPA May 31, 2024 comment letter to the IAASB discussing the results of their research and the discussion on page 11 of the ASB's July 2025 Exposure Draft.

auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A177–A183)

(a) Identified and assessed risks of material misstatement due to fraud;

(b) The identification of fraud or suspected fraud; and

(c) The identification of significant deficiencies in internal control that are relevant to the prevention and detection of fraud.

61. In applying ISA 701,[33] the auditor shall determine which of the matters determined in accordance with paragraph 60 were of most significance in the audit of the financial statements of the current period and therefore are key audit matters. (Ref: Para. A184–A186)

*Communicating Key Audit Matters Related to Fraud*

62. In applying ISA 701,[34] in the Key Audit Matters section of the auditor's report**,** the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para. A187**–**A192)

The IAASB also revised paragraph 40 of ISA 700, *Forming an Opinion and Reporting on Financial Statements,* to expand the description of the auditor's responsibilities related to fraud in the audit report to describe matters that the auditor communicates to the audit committee related to fraud. Excerpts from ISA 700 are included below for reference.

Auditor's Responsibilities for the Audit of the Financial Statements

40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A51)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings that the auditor identifies during the audit, including any:

(i) ~~s~~Significant deficiencies in internal control ~~that the auditor identifies during the audit~~;

(ii) Identified fraud or suspected fraud;[65] and

(iii) Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.[66]

[65] ISA 240 (Revised), paragraph 65

[66] ISA 240 (Revised), paragraph 66

**QUESTIONS**:

1. Should the PCAOB revise the critical audit matters criteria to require communication of matters related to fraud, such as fraud risks or the identification of fraud or suspected fraud?

2. Should the PCAOB expand the description of the auditor's responsibilities regarding fraud in the auditor's report?

**PRESUMPTION THAT IMPROPER REVENUE RECOGNITION IS A FRAUD RISK**

Historically, many fraudulent financial reporting cases have involved intentional misstatement of revenue, for example, at Xerox Corporation and Sunbeam Corporation.[11] Notably, a recent study of U.S. Securities and Exchange Commission ("SEC") Accounting and Auditing Enforcement Releases (AAERs) from 2014 to 2019 by the Anti-Fraud Collaboration (AFC Study) noted that revenue related issues were the most prevalent fraud schemes occurring in 40% of those AAERs (e.g., improper revenue recognition attributable to timing, valuation, fictitious revenues, and percentage of completion).[12]

The requirement to presume that improper revenue recognition is a fraud risk is not new. It was adopted by the AICPA in 2002 in response to frequent frauds involving revenue recognition and subsequently adopted by the Board as part of the interim standards.[13] Both ISA 240.41[14] and AS 2110.68 require the auditor to presume that improper revenue recognition is a fraud risk and evaluate which types of revenue, revenue transactions or relevant assertions give rise to such risks. Both ISA 240 and AS 2110 allow the auditor to rebut that presumption and if so, require the auditor to document their rationale. Excerpts from ISA 240[15] (green) and AS 2110 (blue) are included below for reference.

*Risks of Material Misstatement Due to Fraud in Revenue Recognition*

41. When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, determine which types of revenue, revenue transactions or

[11] *See* *Securities and Exchange Commission v. Xerox Corporation* SEC AAER No. 17465 (April 11, 2002) (settled order) and *In the Matter of SUNBEAM CORPORATION, Respondent*. SEC AAER No. 1393 (May 15, 2001) (settled order).

[12] *See, e.g.,* Anti-Fraud Collaboration, *Mitigating the Risk of Common Fraud Schemes: Insights from SEC Enforcement Actions* (January 2021) (the "AFC Study").

[13] *See* paragraph .41 of AU Sec. 316, *Consideration of Fraud in a Financial Statement Audit*, which stated "Material misstatements due to fraudulent financial reporting often result from an overstatement of revenues (for example, through premature revenue recognition or recording fictitious revenues) or an understatement of revenues (for example, through improperly shifting revenues to a later period). Therefore, the auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition."

[14] SAS 151 includes similar requirements to ISA 240.

[15] SAS 151 contains similar application material to ISA 240.

relevant assertions give rise to such risks, taking into account related fraud risk factors. (Ref: Para. A119–A125).

Note: ISA 240 provides application and other explanatory material regarding the ability to rebut the presumption that revenue recognition is a fraud risk (examples omitted).

> A122. If fraud risk factors related to revenue recognition are present, determining whether such fraud risk factors indicate a risk of material misstatement due to fraud is a matter of professional judgment. The significance of fraud risk factors (see paragraphs A110-A112) 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.
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> A123. There may be limited circumstances where it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition. The auditor may conclude that there are no risks of material misstatement due to fraud relating to revenue recognition in the case where fraud risk factors are not significant.

.68 *Presumption of Fraud Risk Involving Improper Revenue Recognition.* The auditor should presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks.

The IAASB noted the following concerns regarding the presumption that improper revenue recognition is a fraud risk: (1) it is not clear when it may, or may not, be appropriate to rebut the presumption, which has resulted in inconsistent application;[16] and (2) auditors limiting revenue recognition fraud risks to manual journal entries[17] and the cut-off assertion, which it identifies as performance issues.[18] PCAOB staff have observed similar concerns in their oversight activities.

When an auditor presumes that improper revenue recognition is a fraud risk, that risk represents a significant risk, meaning that it requires special audit consideration. When an auditor identifies a fraud risk, the auditor is required to perform substantive procedures that are specifically responsive to the identified fraud risks, including tests of details.[19] The auditor is required to perform tests of details because it is unlikely that audit evidence obtained from

[16] *See* IAASB Project Proposal for ISA 240.

[17] The AFC Study noted that the SEC specifically referenced unsupported journal entries in 11 instances of AAERs (approximately 8% of the 140 fraud schemes identified in the AAERs).

[18] *See* page 18 of the Basis for Conclusions for ISA 240.

[19] *See* AS 2301.13.

substantive analytical procedures alone will be sufficient.[20] When the auditor has determined that a fraud risk exists, the auditor should evaluate the design of the company's controls that are intended to address such fraud risks and determine whether those controls have been implemented if the auditor has not already done so when obtaining an understanding of internal control.[21] The auditor also communicates the fraud risks identified to the audit committee.[22] When the auditor does not assess a fraud risk related to improper revenue recognition or another significant risk, the auditor is not required to perform tests of details and might only perform substantive analytical procedures.

**QUESTIONS**:

1. Similar to ISA 240, should the PCAOB also provide that it is ordinarily inappropriate to rebut the presumption that improper revenue recognition is a fraud risk?

2. Are there specific circumstances in which it would be appropriate to rebut the presumption that improper revenue recognition is a fraud risk?

3. Do auditors need additional direction on identifying and assessing the risks of material misstatement due to fraud associated with revenue recognition?

**RETROSPECTIVE REVIEW OF ACCOUNTING ESTIMATES**

Fraudulent financial reporting often is accomplished through intentional misstatement of accounting estimates. Both ISA 240.28 and .50-.51[23] and AS 2401.63-.65 require the auditor to perform a retrospective review of accounting estimates. Excerpts from ISA 240 (green) and AS 2401 (blue) are included below for reference.

*Retrospective Review of the Outcome of Previous Accounting Estimates*

28. In applying ISA 540 (Revised),[16] the auditor shall perform a retrospective review of management judgments and assumptions related to the outcome of previous accounting estimates, or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement due to fraud in the current period. In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. (Ref: Para. A52)

[16] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 14

[20] *See* AS 2305.09.

[21] *See* AS 2110.72.

[22] *See* AS 1301.09.

[23] SAS 151 contains similar requirements to those in ISA 240.

.64 The auditor should perform a retrospective review of accounting estimates in significant accounts and disclosures[24] by comparing the prior year's estimates to actual results, if any, to determine whether management's judgments and assumptions relating to the estimates indicate a possible bias on the part of management. The accounting estimates selected for testing should be those for which there is an assessed fraud risk. With the benefit of hindsight, a retrospective review should provide the auditor with additional information about whether there may be a possible bias on the part of management in making the current-year estimates. This review, however, is not intended to call into question the auditor's professional judgments made in the prior year that were based on information available at the time.

[24] See AS 2110.60–.64, which describes requirements related to the identification of significant accounts and disclosures.

However, those retrospective reviews performed differ in that:

- ISA 240 requires the auditor to take into account the characteristics of the accounting estimates in determining the nature and extent of the review, while AS 2401 *only* requires the auditor to do a retrospective review for accounting estimates for which the auditor has identified a fraud risk.

- ISA 240 requires the retrospective review to compare the estimate to either the outcome or the subsequent re-estimation (e.g., a subsequent period revision of a prior accounting estimate for the same underlying matter before its outcome is known), while AS 2401 *only* requires a comparison to the actual results, if any.

Under existing AS 2401, the auditor only performs a retrospective review as a response to the risk of management override when both of the following conditions are met: (1) the auditor has identified a fraud risk for the estimate and (2) there are actual results available to compare to. Under ISA 240, the auditor performs the retrospective review as a risk assessment procedure as part of identifying fraud risks.

**QUESTIONS**:

1. Should the PCAOB align its requirements with those of ISA 240 and SAS 151 for identifying the scope of the retrospective review of accounting estimates (i.e., taking into account the characteristics of the accounting estimates in determining the nature and extent of the review)?

2. Are there other instances in which auditors should be required to do a retrospective review (e.g., for estimates that (a) management has identified as a critical accounting estimate or (b) are a significant risk)?

3. Should the PCAOB align its requirements with the ISA 240 and SAS 151 for auditors to perform retrospective reviews when there is a subsequent re-estimation in addition to when actual results are available?

**OTHER POTENTIAL PROVISIONS**

SEIAG members will also have an opportunity to provide their views regarding other potential provisions that could improve auditor efforts with respect to the consideration of fraud risks. For example:

- *Improving the Auditor's Knowledge of Fraud Schemes*. Some auditors may not encounter fraud during their career and may perceive that fraud is uncommon. Such auditors may not sufficiently understand fraud schemes relevant to the company under audit or the company's industry. Many studies, including the AFC Study, have identified and categorized fraud schemes.[24] Some standard setters have created specific requirements regarding auditor competencies with respect to fraud. For example, in 2013, Japan's Business Accounting Council issued a standard to address risks of fraud in an audit to require, among other things, that auditors be familiar with fraud schemes that are publicly known and general and industry specific business practices that are likely to be used for fraud.[25] Increasing auditors' familiarity with common fraud schemes relevant to the industry of the company under audit has the potential to improve auditor efforts to identify fraud risks and potentially fraud.

- *Exploring the Use of Newer Fraud Models*. Existing PCAOB fraud requirements organize the fraud risk factors using the aspects of the fraud triangle.[26] Subsequent academic literature has developed newer fraud models that could assist the auditor in identifying fraud risks. COSO's Fraud Management Guide states that "a rigorous fraud risk assessment process incorporates the current academic and practitioner research on fraud attributes and characteristics. Risk assessments frequently reference and consider various models of fraud."[27] Using fraud models other than the fraud triangle (e.g., the fraud diamond) has the potential to improve the auditor's identification and assessment of fraud risks.[28]

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[24] *See, e.g.*, AFC Study .

[25] *See* provisional translation of the *Opinion on the Standard Setting to Address Risks of Fraud in an Audit* of the Business Accounting Council.

[26] The fraud triangle is a fraud model that recognizes that most frauds include three important elements: incentive or pressure to commit fraud; opportunity to carry out the fraud; and attitudes or rationalizations to justify the fraud. *See, e.g.,* page 32 of COSO *Fraud Risk Management Guide*, 2nd edition.

[27] *See* page 32 of COSO *Fraud Risk Management Guide*, 2nd edition.

[28] *See, e.g.*, COSO *Fraud Risk Management Guide*, 2nd edition.

- *Promoting Critical Thinking by Auditors*. Under existing PCAOB fraud requirements, when evaluating the results of the audit, the auditor should evaluate whether the accumulated results of auditing procedures and other observations affect the assessment of the fraud risks made throughout the audit and whether the audit procedures need to be modified to respond to those risks.[29] As part of this evaluation, the engagement partner should determine whether there has been appropriate communication with other engagement team members throughout the audit regarding information or conditions that are indicative of fraud risks. Existing PCAOB fraud requirements state that to accomplish this communication, the engagement partner might arrange another discussion—in addition to the discussion conducted as part of the auditor's risk assessment procedures[30]—among the engagement team members about fraud risks.[31] When auditors don't identify fraud they have been faulted for failing to identify red flags or for not having been skeptical enough.[32] Improving the auditor's evaluation of the assessment of fraud risks at the end of the audit, including, for example, requiring engagement teams to hold (or consider whether to hold) a second fraud brainstorming session during the evaluation of audit results, has the potential to appropriately identify fraud risks or suspected fraud when evaluating audit results.

- *Technology Considerations*. The development of automated and technology-based tools, including tools that incorporate AI capabilities, can affect how fraud is perpetrated and how fraud might be detected. For example, the use of data analytics by auditors has the potential to assist the auditor in responding to assessed fraud risks. ISA 240 includes examples relevant to the use of automated tools and techniques in its application and other explanatory material. Also, others (e.g., forensic consultants, internal audit, short sellers, and analysts) may have developed techniques for using such tools to detect fraud that could be adapted to the audit. Improving the auditor's understanding of the tools and techniques used by others to detect fraud could assist auditors in designing responses to assessed fraud risks.

**QUESTIONS**:

1. Would auditors benefit from greater familiarity with common fraud schemes relevant to the industry of the company under audit? If so, how could the PCAOB promote such familiarity?

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[29] *See* AS 2810.28-.29. During this evaluation the auditor takes into account certain matters contained in Appendix C of AS 2810.

[30] *See* AS 2110.49-51.

[31] *See* AS 2810.28-29.

[32] *See, e.g.*, Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions: In the Matter of PricewaterhouseCoopers Auditing Company SA, Respondent, PCAOB Release No. 105-2023-027, (Nov. 14, 2023) and In the Matter of Crowe U.K. LLP, Nigel D. Bostock, FCA, and Matthew C. Stallabrass, FCA, SEC AAER No. 4438, (August 14, 2023).

2. Should the PCAOB explore requiring the use of newer fraud models by auditors?

3. What changes to PCAOB standards could promote critical thinking by auditors during the evaluation of audit results?

4. Are there aspects of the use of automated and technology-based tools or techniques used by others (e.g., forensic consultants, internal audit, short sellers and analysts) that could be adapted to the audit?

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