PKF
R.S. Bernaldo & Associates

R.S. Bernaldo & Associates
18/F Cityland Condominium 10
Tower 1, 156 H.V. dela Costa St.,
Ayala North, Makati City,
Philippines 1226

+632 8812-1718 to 22
info@pkfrsbernaldo.com
www.pkfrsbernaldo.com

Newsletter

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The Board of Accountancy (BOA), under Resolution No. 03, Series of 2026, approved the adoption of PSA 240 (Revised), PSA 570 (Revised 2024), and the Narrow Scope Amendments to the PSQMs, PSAs, and PSRE 2400 (Revised) as part of the Philippine Auditing Standards.

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ADOPTION OF REVISED AUDITING STANDARDS

TRANSITION AND EFFECTIVE DATE

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

The BOA has approved the adoption of the amendments to the following:

1. PSA 240 (Revised) The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, Including Conforming and Consequential Amendments to Other Philippine Auditing Standards
2. PSA 570 (Revised 2024), Going Concern, Including Conforming and Consequential Amendments to Other Philippine Standards on Auditing (PSAs)
3. Narrow scope amendments to the PSQMs, PSAs, and PSRE 2400 (revised) as a result of the revisions to the definitions of listed entity and public interest entity in the code of ethics for professional accountants in the Philippines

AMENDMENTS PSA 240 (REVISED) THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS, INCLUDING CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER PHILIPPINE AUDITING STANDARDS

Objectives of the amendments to PSA 240

- 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 PSA 240 to establish more strengthened requirements and enhance and clarify application material where necessary.
- Enhance PSA 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 those charged with governance (TCWG) and the reporting requirements in PSA 240 and other relevant PSAs.

According to International Auditing and Assurance Standards Board (IAASB) here are the key changes to PSA 240 (Revised):

1. Reinforcing the exercise of professional skepticism throughout the audit

   PSA 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, an overall evaluation requirement was introduced, building on the requirement in PSA 330, which requires the auditor, before concluding the audit, to assess whether the identified ROMMs due to fraud remain appropriate and whether sufficient appropriate audit evidence has been obtained to address those risks.

2. Clarifying and emphasizing auditor responsibilities

   PSA 240 (Revised) clarifies and improves 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 TCWG about matters related to fraud

   PSA 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

   PSA 240 (Revised) includes new requirements and guidance that drive the auditor to design and perform strengthened risk assessment procedures. These requirements expand on how the relevant requirements in PSA 315 (Revised 2019) are applied with a fraud lens. The structure of the risk assessment section closely aligns to the structure of PSA 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 strengthened work effort requirements when fraud or suspected fraud is identified.

   PSA 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 (KAMs) related to fraud in the auditors

   PSA 240 (Revised) introduces, in a new separate section, requirements that expand on PSA 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

   PSA 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.

Our view

PSA 240 (Revised) significantly strengthens the auditor's responsibilities in detecting and responding to fraud. The standard moves away from a passive, checklist-driven approach and instead embeds a "fraud mindset" throughout the entire audit process. As a result, auditors are expected to exercise greater professional skepticism, adopt a more inquisitive attitude, and be more deliberate in identifying and assessing fraud risks.

This shift is critical because fraud is often intentionally concealed, making traditional audit procedures insufficient on their own. By requiring more targeted audit procedures and a deeper analysis of incentives, pressures, and opportunities for fraud, the standard encourages auditors to go beyond mere verification of financial records and adopt a more investigative mindset.

In light of these enhanced requirements, the Client Service Team (CST) should update the planning meeting presentation, particularly the section relating to the auditor's responsibilities concerning fraud. The revisions should emphasize the heightened expectations for professional skepticism, fraud risk assessment procedures, and the auditor's overall responsibilities under PSA 240 (Revised).

PSA 570 (REVISED 2024), GOING CONCERN, INCLUDING CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER PHILIPPINE STANDARDS ON AUDITING (PSAS)

Objectives of the amendments to PSA 570

- Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern.
- Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism.
- Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements.

According to IAASB, here are the key changes to PSA 570 (Revised 2024):

1. Clarity for key concept and terminology

   New definition for Material Uncertainty Related to Going Concern (MURGC) that explains the phrase may cast significant doubt. The definition aims to promote consistency in application across jurisdictions and support understanding of this core concept that may apply to both auditors and preparers in the appropriate context.

2. Risk assessment procedures and related activities

   PSA 570 (Revised 2024) requires the design and performance of enhanced risk assessment procedures, which support auditors in determining, on a timely basis, whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. The standard also provides clarity by emphasizing that such events or conditions are identified on a gross basis-before consideration of mitigating factors included in management's plans for future actions.

3. Period of management’s assessment

    - Evaluate management's assessment of going concern that covers a period of at least twelve months from the date of approval of the financial statements.
    - Request management to extend its assessment if a different period is used and take further actions if management is unwilling to extents its assessment including, discussing with management, and where appropriate, those charged with governance the reasons for management's decision.

4. Management’s plans for future actions

    PSA 570 (Revised 2024) requires the auditor to evaluate both the intent and ability of management to carry out specific courses of actions in their plans for future actions. Additionally, the auditor must obtain audit evidence about such intent and ability if financial support is provided by third or related parties, including the entity's owner-manager.

5. Management’ s assessment of going concern

    Regardless of whether events or conditions are identified, auditors are required to evaluate management's assessment of going concern, including the significant management judgments on which the evaluation is based. Such evaluations address the method, significant assumptions, and data used by management.

6. Reinforced and strengthened communication

    Importance of timely, two-way communications with those charged with governance throughout the audit engagement for matters pertaining to going concern.

    Obligation of the auditor to communicate with appropriate authorities outside the entity when law, regulation or relevant ethical requirements set out requirements, responsibilities or rights to do so.

7. Enhanced transparency to users of auditor’s reports

    The revised standard introduces an enhanced auditor reporting model for going concern. This includes reporting either in a new section under the heading 'Going Concern' or in a section with a heading “Material Uncertainty Related to Going Concern'.

    - When the going concern basis of accounting in the preparation of the financial statements is appropriate and unless the auditor disclaims an opinion on the financial statements, the standard requires explicit statements to be provided in the auditor's report to enhance transparency that the auditor has fulfilled their responsibilities in relation to going concern.
    - When significant judgments are made by management in concluding that there is no material uncertainty or when a material uncertainty exists that is adequately disclosed, the standard requires additional communication for audits of financial statements of listed entities.

Our view:

PSA 570 (Revised 2024) reflects a significant shift toward a more proactive and judgment-intensive evaluation of the going concern assumption. In the past, auditors may have relied too heavily on management's assessment; however, the revised standard requires them to more rigorously challenge management's assumptions, test underlying forecasts, and independently evaluate the entity's ability to continue operating.

This development is particularly important in light of high-profile business failures where warning signs were present but not sufficiently addressed. By strengthening auditor responsibilities in this area, the standard aims to enhance the quality of going concern assessments. Furthermore, the requirement to provide clearer conclusions in the auditor's report improves transparency, enabling users of financial statements to better understand an entity's financial sustainability and associated risks.

NARROW SCOPE AMENDMENTS TO THE PSQMS, PSAS, AND PSRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS IN THE PHILIPPINES

Objective

Aims to align with the IESBA Code of Ethics regarding certain public disclosures about the application of independence requirements.

Key changes

1. Adopt the same definition of publicly traded entity (PTE) in the ISQMs and ISAs as adopted in the IESBA Code of Ethics, while recognizing the role local standard setters and regulators play in defining PTEs for their jurisdictions.
2. Incorporate an overarching objective for differential requirements for PTEs in the PSQMs and PSAs and a framework for when it may be appropriate to apply such requirements to other entities.
3. Amend the applicability of the existing requirements for audits of listed entities to apply to audits of PTEs.
4. Add a new requirement in PSRE 2400 (Revised) for public disclosure in the practitioner's review report when the practitioner applied independence requirements specific to reviews of financial statements of certain entities, e.g., for public interest entities.

Our view:

Regarding the IESBA Code updates on Public Interest Entities, I view these changes as essential for strengthening auditor independence and public trust. By expanding and clarifying what qualifies as a PIE, more entities are subjected to stricter ethical and independence requirements. This is important because these organizations have a greater impact on the public, investors, and the economy. In my opinion, aligning local standards with global ethical frameworks ensures consistency and reinforces accountability across jurisdictions. It also emphasizes that the auditor's role is not just technical but also ethical, requiring integrity and independence at all times.

For the full text of BOA Resolution No. 3, series of 2026 and related standards, refer to the links below.

2026-03-BOA-Resolution

PSA 240 (Revised)

PSA 570 (Revised 2024)

Narrow Scope Amendments to the PSQMs, PSAs, and PSRE 2400 (Revised)

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Comments and suggestions are welcome.

Editorial Board

- Rose Angeli S. Bernaldo
  Managing Partner
  rose.bernaldo@pkfrsbernaldo.com
- Charmaine S. de Guzman
  Quality Assurance Director /
  Quality Assurance Leader
  charmaine.deguzman@pkfrsbernaldo.com
- John Kyle M. Riparip
  Senior Quality Assurance Associate II/
  Technical Review Leader
  john.riparip@pkfrsbernaldo.com
- Princess Joverly G. Masabot
  Senior Quality Assurance Associate II/
  Ethics Leader
  princess.masabot@pkfrsbernaldo.com
- Jean Marsha V. Mesias
  Senior Quality Assurance Associate II/
  Learning and Training Leader
  jeanmarsha.mesias@pkfrsbernaldo.com
- Keith Frances P. Basan
  Quality Assurance Associate
  Consultation Leader
  keith.basan@pkfrsbernaldo.com
- Angela Gabrielle L. Reyes
  Quality Assurance Associate
  Assistant Training Leader
  angela.reyes@pkfrsbernaldo.com