Project Proposal to Revise ISA 240

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Agenda Item A.1
Information Gathering and Research Activities to Date

Significant and wide-ranging information gathering and research activities

March 2020 – March 2021

Post March 2021

Additional root cause analysis of fraud cases
Common Themes from Additional Root Cause Analysis

1 – What Auditors Can Do Better:
   More robust exercise of professional skepticism;
   More robust risk identification procedures

2 – Nature of Fraud:
   Nature of frauds has not changed much – depends on entity circumstances and motivations of fraudster. Often start small and grow over time

3 – How Frauds Are Executed/Concealed:
   Varies considerably (e.g., fictitious journal entries, structuring transactions with 3rd parties, inflating goodwill, roundtrip transactions)

4 – Who Is Involved:
   Executives or company management are the key players

5 – Whether Frauds Involve Related Parties:
   More common in certain jurisdictions than others; More in private entities than publicly listed entities

6 – Financial Accounts Impacted:
   Revenue still most prominent, also goodwill, cash, reserves and accruals, receivables (invoice factoring), R&D expenses

7 – How Frauds Are Detected and By Who:
   Through entity whistleblower programs and other controls, regulators, internal auditors, external auditors (typically identify less frauds)

8 – Impact of Technology:
   Adds a layer of sophistication or complexity
Project Objectives to Achieve the Public Interest

Roles and Responsibilities
Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements

Risk Assessment Procedures and Responses
Enhance and clarify ISA 240 to establish more robust audit procedures that will promote consistent behaviors and facilitate effective responses to identified risks

Professional Skepticism
Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures

Transparency
Enhance transparency on fraud-related procedures, including strengthening communications with those charged with governance (TCWG) and the reporting requirements in ISA 240 and other relevant ISAs
Stakeholders Impacted by a Project on Fraud

- Users of financial statements ("the users")
- The profession
- Those in charge of adoption, implementation and enforcement of the standards
- Preparers
- Other users

The public interest requires the weighing and balancing of all stakeholder views.
### Key Issues Identified Addressed by the Project

| Concerns about the clarity of the role of the auditor on fraud in an audit of financial statements |
| Questions around the robustness of identifying and assessing risks of material misstatement due to fraud |
| Questions around the adequacy of responses to the assessed risks of material misstatement due to fraud |
| A need to more appropriately recognize the use of technology in ISA 240 |
| Views that there is insufficient linkage of ISA 240 to the other ISAs to promote an integrated risk-based approach |
| Further enhancements or clarity is needed for certain fraud-related procedures |
| A need to reinforce the appropriate exercise of professional skepticism |
| Views that transparency about the auditor’s fraud-related procedures in communications between the auditor and TCWG and within the auditor’s report should be enhanced |
**Scope of the Proposed Project on Fraud**

**Standard Setting**
- Role and Responsibilities
  - Emphasize the auditor’s responsibilities regarding fraud
  - Clarify how concepts such as bribery and corruption relate to the definition of fraud
  - Address the need for specialized skills to assist with audit procedures

**Non-Authoritative Guidance**
- Risk Assessment Procedures and Responses
  - Enhance risk identification and assessment to be more robust
  - Strengthen the auditor’s responses to assessed RoMM due to fraud
  - Clarify and enhance certain fraud-procedures and emphasize use of technology

**Professional Skepticism**
- Reinforce more robust exercise of professional skepticism when performing procedures related to fraud

**Other Actions**
- Transparency
  - Strengthen required communications with TCWG about the auditor’s fraud-related procedures
  - Determine the need for more transparency in the auditor’s report describing fraud-related matters
Impact of a Project on Fraud

Improved audit quality through the consistent application of the requirements

Better meeting stakeholder expectations regarding the auditor's responsibilities relating to fraud, thereby enhancing confidence in audit engagements

Reduced inspection findings related to the auditor’s procedures on fraud in an audit of financial statements (recognizing that inspections findings are also affected by other contributing factors)
Representatives are asked for views on the draft project proposal presented in Agenda Item A.3 setting out the project objectives, the key issues identified and the scope of the proposed project to revise ISA 240.