Fraud in an Audit of Financial Statements

Lyn Provost, Fraud Task Force Chair

IAASB CAG Meeting
September 8, 2022
Agenda Item G.1
Topics Addressed Since the March 2022 CAG Meeting

- Introduction
- Specialized Skills
- Identifying and Assessing the Risks of Material Misstatement Due to Fraud
- Presumption of Fraud Risks in Revenue Recognition
- Journal Entries
- Communication with TCWG
- Transparency in the Auditor’s Report
- Non-Authoritative Guidance
Transparency in the Auditor’s Report on Fraud

Outreach with Users of the Financial Statements – Options Presented

01st Option
Describing the auditor’s approach to fraud risks

02nd Option
Describing the identified and assessed fraud risks, and the auditor’s response to the assessed fraud risks

03rd Option
Describing the identified and assessed fraud risks, the auditor’s response to the assessed fraud risks, and the auditor’s findings/observations when responding to the assessed fraud risks

04th Option
Emphasizing the use of the existing requirements for the communication of Key Audit Matters for listed entities where there is a fraud risk

05th Option
Reporting identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud
Transparency in the Auditor’s Report on Fraud

What We Heard from Users of the Financial Statements

- Option 3 – 46%
- Option 4 – 33%
- Option 2 – 13%
- Option 1 – 4%
- Own option – 4%

In addition, 17 of the 24 users of the financial statements were of the view that option 5 should also be included in the auditor’s report.
Transparency in the Auditor’s Report on Fraud

Key Takeaways from the Targeted Outreach

Users of the financial statements …

- Value more transparency about fraud in the auditor’s report
- Recognize management and TCWG have primary responsibility for the prevention and detection of fraud
- Looking for entity-specific information about fraud risks (no boilerplate statements)
- View insights about the system of internal controls to prevent and detect fraud as an indicator of “what could go wrong”

- Noted that information on fraud may assist with their assessment of the entity
- Trust, and value, the auditor’s independent perspective
- Reiterated that the auditor “works for” the users of the financial statements
- Highlighted the importance of clarity in messaging in the auditor’s report
- Indicated the importance of educational material

Users of the financial statements …
Transparency in the Auditor’s Report on Fraud

Framework for the Way Forward

1. Is There a Need for Transparency on Fraud in the Auditor’s Report?
2. Should the Auditor’s Report Include Entity-Specific Information or Standardized Statements about Fraud?
3. What Type of Entity-Specific Information Should Be Included in the Auditor’s Report?
4. Should the Additional Disclosures on Fraud Be Included in a Separate Section on Fraud?
5. What Should the Scope Be (Listed Entities or All Entities)?

- Include the auditor’s approach to fraud risks?
- Include the identified and assessed fraud risks and the auditor’s response to the assessed risks?
- Include the auditor’s findings or observations when responding to the assessed fraud risks?
- Include identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud?
Transparency in the Auditor’s Report on Fraud

Task Force’s Views and Recommendations on Way Forward

Based on consistent feedback received, the Task Force proposes to enhance transparency in the auditor’s report on fraud by including a separate section that encompasses a description of:

- The auditor’s responsibilities as it relates to fraud in the audit of the financial statements
- The identified and assessed fraud risks and the auditor’s response to the assessed risks
- Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements

Mixed views on the scope of the options presented:
- Listed entities
- All entities
1. Representatives are asked for their views on the way forward to address transparency in the auditor’s report on fraud as set out in Section I of Agenda Item G.3
Introduction

- Emphasis on the auditor’s responsibilities
- Relationship between ISA 240 and ISA 250 (Revised), and other ISAs
- Non-material fraud
- Other matters
2. Representatives are asked whether there are any other matters the Task Force should consider as it develops the Introduction section of proposed ISA 240 (Revised) in addition to those set out in Section II of Agenda Item G.4
Fraud Project: Way Forward

Update the Board about outreach activities with users of the financial statements on transparency in the auditor’s report on fraud and the section in proposed ISA 240 (Revised) that are building of ISA 315 (Revised 2019)

September 2022

Discussions with the Board on a near full draft of proposed ISA 240 (Revised)

December 2022

Expected approval of exposure draft

Q2-Q3 2023