

Project Proposal to Revise ISA 240

Lyn Provost, Fraud Working Group Chair

IAASB CAG Meeting

Videoconference

November 30, 2021

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

Non-Authoritative Guidance

Other Actions

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

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

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)

Matter for IAASB CAG Consideration



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



**International Auditing
and Assurance
Standards Board®**



[@IAASB_News](https://twitter.com/IAASB_News)



[@International Auditing and
Assurance Standards Board](https://www.linkedin.com/company/@InternationalAuditingandAssuranceStandardsBoard)



[@International Auditing &
Assurance Standards Board](https://www.youtube.com/channel/UC-IAASB)

www.iaasb.org

IAPN™

ISA.

ISAE.

ISQC™

ISRE™

ISRS.