

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



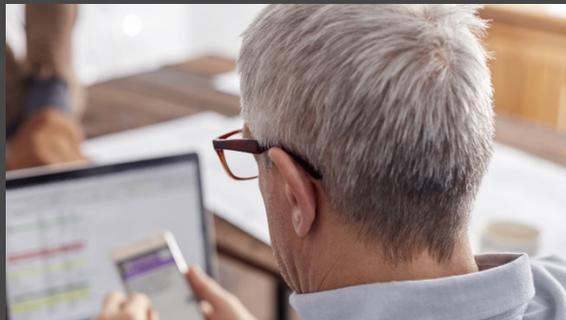
Specialized Skills



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

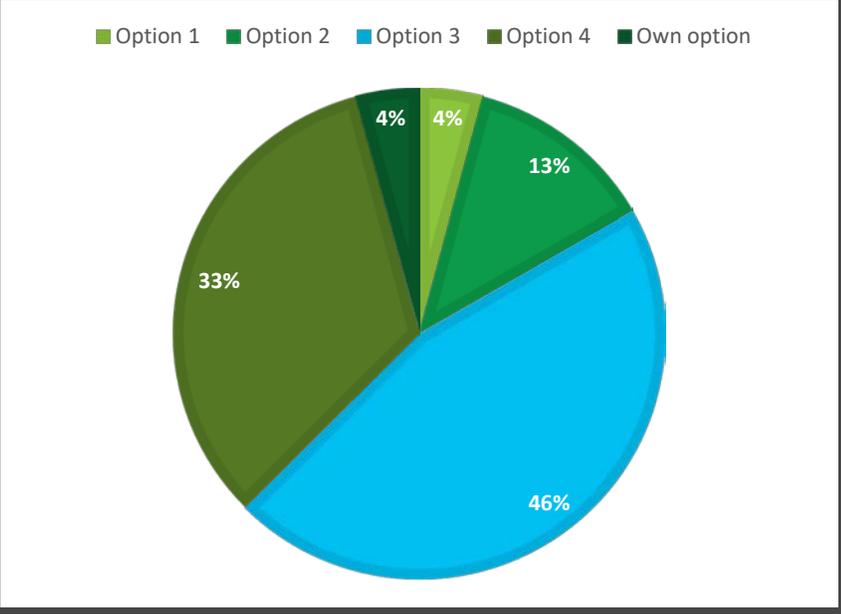
Reporting identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud

Transparency in the Auditor's Report on Fraud

PIOB's Public Interest Framework: For whom are the standards developed?



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



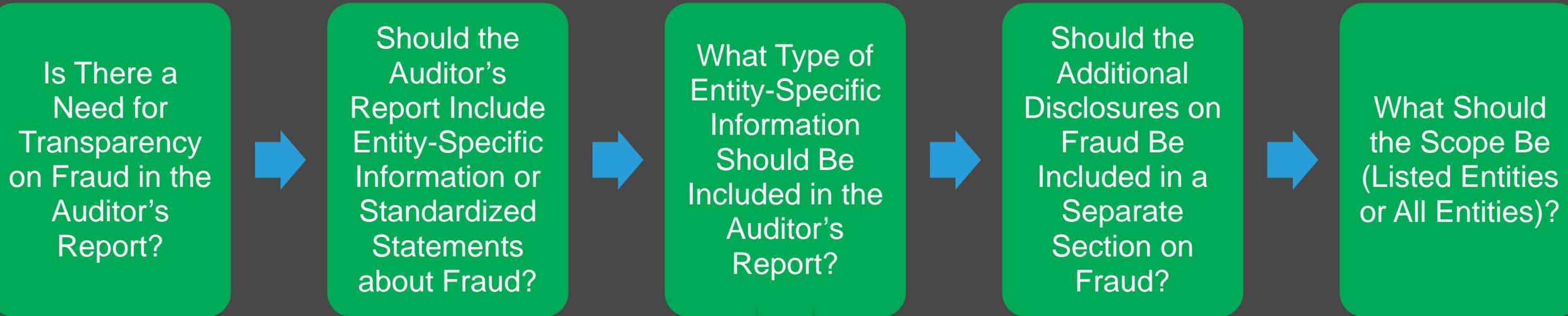
Highlighted the importance of clarity in messaging in the auditor's report



Indicated the importance of educational material

Transparency in the Auditor’s Report on Fraud

Framework for the Way Forward



- 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

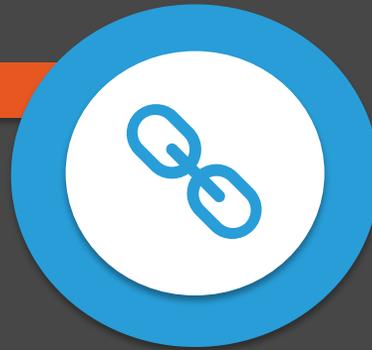
Matters for IAASB CAG Consideration

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

Matters for IAASB CAG Consideration

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

Expected approval of exposure draft

Q2-Q3 2023

December 2022

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

IAASB

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