

Fraud in an Audit of Financial Statements

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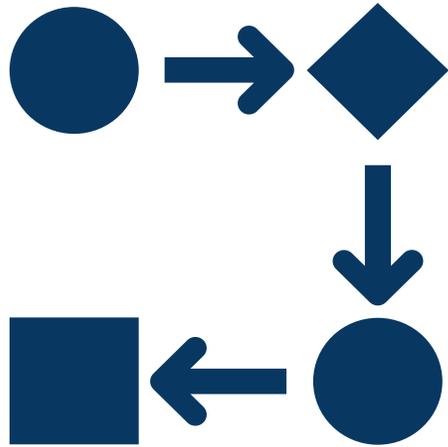
Jasper van den Hout, IAASB Principal

IAASB Meeting

June 16, 2022

Agenda Item 7

Structure of Proposed ISA 240 (Revised)



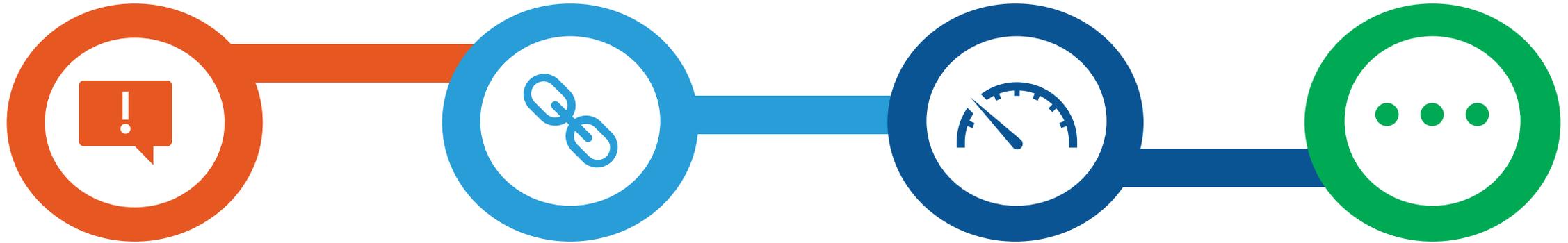
Structure and Flow



Considered the layout, including headings and related content, of recently revised ISAs:

- ISA 315 (Revised 2019)
- ISA 540 (Revised)
- ISA 600 (Revised)

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 Consideration

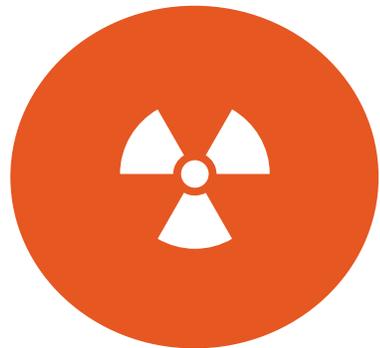
Introduction

Paragraphs:
1–9A, A1A–A7

1. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraphs 1–9A of Agenda Item 7-A** (and related application material). The Task Force is specifically interested in the Board’s perspectives on the:
 - (a) Appropriate balance between the auditor’s responsibilities and the inherent limitations in the introductory paragraphs;
 - (b) Introduction of the “Key Concepts in the ISA” section, including the use of sub-headings that clearly highlight the interrelationship between proposed ISA 240 (Revised), ISA 250 (Revised), and other ISAs;
 - (c) Enhancements to address fraud that is not material to the financial statements, specifically that judgments about whether an identified misstatement is material involves qualitative and quantitative considerations; and
 - (d) Clarification that the term “fraud” is inclusive of actual fraud and suspected fraud.
2. In relation to the Introduction, the Board is asked whether there are any other related matters the Task Force should consider as it develops the Introduction section of proposed ISA 240 (Revised).

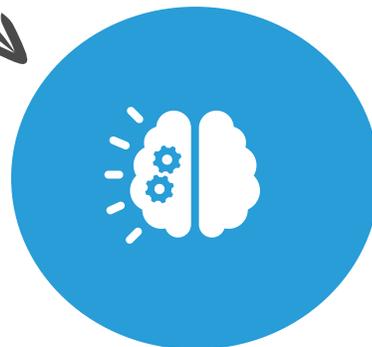
Engagement Resources

Auditor to determine whether members of the engagement team require specialized skills or knowledge to

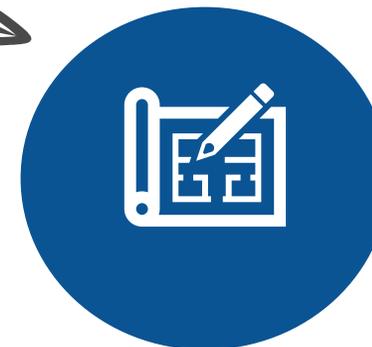


Perform risk
assessment
procedures

Identify and assess the
risks of material
misstatement due to
fraud



Design and perform
further audit
procedures to
respond to those risks



OR Evaluate
the audit
evidence
obtained

Matters for IAASB Consideration

Engagement Resources

Paragraphs:
16A, A12A–A12D

3. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraph 16A** of **Agenda Item 7-A** (and related application material) and specifically:
 - (a) Whether the requirement to “determine” the need for specialized skills and related application material is sufficiently scalable and proportionate.
 - (b) Whether the term “forensic skills” is appropriately described.
4. In relation to the need for specialized skills, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Changes Resulting from ISA 315 (Revised 2019)

Enhanced and clarified requirements and application material in ISA 240 to incorporate recent changes in ISA 315 (Revised 2019) to make fraud risk identification and assessment more robust



Aligned the wording, structure and headings



Clarified the linkage with ISA 315 (Revised 2019)



Clarified that the risk assessment procedures in proposed ISA 240 (Revised) refer to, and expand on, what is included in ISA 315 (Revised 2019)

Risk Assessment Procedures, including Communications with TCWG

Developed explicit fraud considerations in risk assessment procedures

Make inquiries of management, TCWG and others within the entity

Obtain an understanding of how TCWG exercise oversight

Discuss specified fraud-related matters with TCWG



Information from other sources

Determine implications of **inconsistent responses**

Matters for IAASB Consideration

Risk Assessment Procedures and Related Activities, including Communications with TCWG

Paragraphs:
17–24, A12E–
A23A

5. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraphs 17–24**, of **Agenda Item 7-A** (and related application material) and specifically for its views on:
 - (a) Whether further changes are needed to clarify that the risk assessment procedures in proposed ISA 240 (Revised) are not separate from those in ISA 315 (Revised 2019)
 - ...
6. In relation to identifying and assessing the risks of material misstatement, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Obtaining an Understanding

Developed specific considerations relating to fraud when obtaining an understanding of



The Entity and Its Environment



The Applicable Financial Reporting Framework



The Entity's System of Internal Control

Matters for IAASB Consideration

Obtaining an Understanding

Paragraphs:
24B, A23D–A23L

5. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraphs 24B** of **Agenda Item 7-A** (and related application material) and specifically for its views on:
 - (a) ...
 - (b) The structure of paragraph 24B of proposed ISA 240 (Revised); and
 - (c) Whether other matters specific to the risk of fraud should be included in paragraph 24B of proposed ISA 240 (Revised) or the related application material.
6. In relation to identifying and assessing the risks of material misstatement, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Identifying and Assessing the RoMMs Due to Fraud

Emphasizing in ISA 240 How Fraud Risk Factors Influence the Identified Risks of Material Misstatement Due to Fraud

Identifying the risks of material misstatement (RoMMs) due to fraud

Assessing the RoMMs due to fraud

Split into two sections following structure in ISA 315 (Revised 2019)

Matters for IAASB Consideration

Identifying and Assessing the RoMMs Due to Fraud

Paragraphs:
25–26, A24–A28B;
27A–28A, A31B–A33

Note: *Presumption of Fraud Risk in Revenue Recognition* (paragraphs 27 and A29–A31A) will be addressed on the following slides

5. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraphs 25–26 and 27A–28A of Agenda Item 7-A** (and related application material)
6. In relation to identifying and assessing the risks of material misstatement, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Presumption of Fraud Risk in Revenue Recognition

In evaluating which types of revenue, revenue transactions or relevant assertions give rise to fraud risks

Shifting the auditor's focus

From developing a rebuttal of the presumption of fraud risks in revenue recognition



To performing robust risk identification and assessment

By taking into account the fraud risk factors



Matters for IAASB Consideration

Presumption of Fraud in Revenue Recognition

Paragraphs:
27, A29–A31A

7. The Board is asked for its views on the changes to proposed ISA 240 (Revised) as set out in **paragraph 27** of **Agenda Item 7-A** (and related application material) and specifically:
 - (a) Whether the enhancements shift the auditor's focus away from developing a rebuttal.
 - (b) Whether the application material in paragraph A28A of proposed ISA 240 (Revised) provides sufficient guidance for other account balances that may be particularly susceptible to material misstatement due to fraud.
8. In relation to the presumption of fraud risk in revenue recognition, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Journal Entries

Understanding of



The Entity and Its Environment



The Applicable Financial Reporting Framework



The Entity's System of Internal Control

May help the auditor determine



Nature

Timing

Extent

Testing Approach to be applied to journal entries and other adjustments

Obtain audit evidence about the **completeness** of the population

Matters for IAASB Consideration

Journal Entries

Paragraphs:
33(a), A42–45A

9. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraph 33(a)** of **Agenda Item 7-A** (and related application material) and specifically:
 - (a) Whether the enhancements provide the auditor with a robust framework in determining the nature, timing and extent of testing journal entries and other adjustments.
 - (b) Whether the proposed changes appropriately consider scalability and proportionality.
 - (c) Whether there is anything more that can be done to modernize the testing of journal entries and other adjustments.
10. In relation to journal entries, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Communication with Management and Those Charged with Governance

Encouraged two-way communication between Management and TCWG and the auditor through



Specific discussions with TCWG about fraud-related matters



And emphasized the ongoing nature of communications throughout the audit



Matters for IAASB Consideration

Communications with Management and TCWG

Paragraphs:
40A, A60A–A60C

11. The Board is asked for its views on the changes made to proposed ISA 240 (Revised) as set out in **paragraph 40A of Agenda Item 7-A** (and related application material) and specifically:
 - (a) Whether the enhancements in the requirements and the related application material adequately address the appropriate two-way communication and the ongoing nature of communications with TCWG.
 - (b) Whether the location of the requirement emphasizing the ongoing nature of communications with management and TCWG in paragraph 40A is appropriate.
12. In relation to communications with TCWG, the Board is asked whether there are any other related matters the Task Force should consider as it develops proposed ISA 240 (Revised).

Transparency in the Auditor's Report

Further developed the options
and included examples in April
– May 2022



Conduct outreach with users
of the financial statements in
June – July 2022



Report back to the Board in
September 2022



Way Forward

Outreach with users of the financial statements on transparency in reporting on fraud

June – July 2022

Discussions with the Board on proposed ISA 240 (Revised)

December 2022

September 2022

Update the Board about outreach activities with users of the financial statements on transparency in reporting on fraud

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