

FRAUD IN THE DIGITAL AGE

IAASB-Facilitated Roundtable Discussion on the Impact of Technology Advancements on Fraud Perpetration and Detection



SEPTEMBER 2, 2020

7:00 AM EDT – 10:00 AM EDT

INTRODUCTION

Frauds in audits of financial statements continue to be in the spotlight. The IAASB has therefore commenced a new initiative to address issues and challenges related to fraud in an audit of financial statements to help it respond to the significant questions raised regarding the role of auditors in relation to fraud. While there are several matters we are exploring as part of our broader information-gathering activities, one aspect we are focusing on is the impact of technology on fraud.

The proliferation of technology has presented unprecedented opportunities for fraud—the means, motivation and opportunity have been facilitated by the increasing and evolving use of technology. In the rapidly evolving technological landscape, detection becomes harder. As businesses embrace digitization to better serve their customers, there is an emergence of new threats. Technology may be one of the greatest enablers of fraud, but also, paradoxically, one of the greatest defenses.

There is a call for auditors to do more in relation to fraud as part of their audit procedures. We would like to dig deeper into the topic of fraud and how it is impacted by technology to better understand:

- How technology can facilitate the perpetration of fraud;
- How technology is being used in financial statement audits to help the auditor in relation to their obligations with regard to fraud; and
- How technology is used in forensic audits, and whether there are any aspects of this that may be helpful for the purpose of a financial statement audit.

We look forward to the discussions at this global virtual roundtable to explore and discuss the issues and challenges specifically focused on fraud from a technology perspective.

This roundtable discussion will be live streamed to the [IAASB YouTube Channel](#), except for the breakout session discussions as detailed in the agenda in Appendix A. Also, the full session including the breakout sessions will be recorded and published to the IAASB website on a future date following conclusion of the session.

Registration is required to attend. Once you have registered, you will receive a personalized link to the attend the roundtable and you will be prompted to add the Zoom meeting reminder with the link to your calendar.

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BACKGROUND

The Current Financial Landscape

Recent corporate failures and scandals across the globe have called into question the role and responsibility of the auditor in relation to fraud in an audit of financial statements. There are many examples of recent issues highlighted with regard to the expectations of auditors, including:

- In 2015, it was discovered that Japanese electronics company Toshiba Corporation had overstated operating profits by more than \$1.2 billion in a scandal that began in 2008 and spanned 7 years, causing stakeholders to question the auditor's failure to detect the irregularities earlier.
- In late 2017, accounting irregularities in the financial statements of global furniture and household goods company Steinhoff International Holdings NV triggered a fraud investigation, which uncovered billions of dollars of fictitious or irregular transactions over the course of several years.
- More recently, German payment company Wirecard filed for insolvency in June 2020 after admitting that approximately \$2.6 billion on the company's balance sheet likely did not exist, leading to an official investigation regarding fraudulent activities and stakeholder questions around how the auditor failed to detect this earlier.
- An independent investigation found that Chinese coffee chain Luckin Coffee fraudulently inflated sales in 2019 by 2.1 billion yuan (over \$300 million), which resulted in the company being delisted from the US Nasdaq exchange.



Such corporate scandals and collapses have sparked debate between regulators, public policy makers, investors, practitioners and others. Some have questioned whether the responsibilities of the auditors in relation to fraud issues in an audit of financial statements are sufficient to address public interest concerns, while balancing the obligations of the auditor in terms of the auditing standards. While there may have been many contributing factors to each of the above examples, it is highly likely that technology would have played a part in each.

Technology & Fraud

Based on feedback received by the IAASB through many channels and outreach activities, it is clear that technology is top of mind for stakeholders, both in relation to how it is used to perpetrate fraud, and also how it is used in an audit to identify, assess and respond to risks of material misstatement due to fraud. The IAASB has been encouraged to further consider how the auditing standards need to evolve to be more fit-for-purpose in light of evolving technologies and capabilities, thereby facilitating more robust fraud-related audit procedures.

Technology Used to Perpetrate Fraud

Emerging technologies in today's environment, such as artificial intelligence (AI) applications, blockchain, data analytics, and robotic process automation (RPA) may provide new opportunities for fraudsters to take advantage of companies or consumers. For example, a [2018 report](#) authored by numerous experts

including academia and independent organizations details the potential for malicious use of artificial intelligence, including expansion of existing threats due the scalable use of AI systems to complete tasks that would ordinarily require human labor, intelligence and expertise.

The IAASB would like to draw upon the expertise of the roundtable participants to dive deeper into how fraud may be perpetrated using technology and learn more about the types of fraud risks that exist in today's digital environment.

Technology Used by Auditors

Many of the same technologies described above (e.g., AI applications, data analytics, and RPA) may be used today as automated tools and techniques to perform certain fraud-related procedures in the financial statement audit. For example, the power of data analytics may allow firms to perform certain procedures on 100% of a population instead of relying on selective testing. It may also allow auditors to derive insights from full populations, allowing for a more targeted risk-based approach to, for example, journal entry testing in response to identified risks of material misstatement due to fraud.

The IAASB would like to learn more about how technology is being used to perform fraud-related procedures in financial statement audits today. The IAASB would also like to gather participant perspectives about emerging technologies that may be used to perform fraud-related procedures in financial statement audits in the near future.

“There was also widespread optimism amongst both businesses and investors that new technologies would enable auditors to better spot potentially fraudulent activities, such as by analyzing larger amounts of data than is currently possible.”

The Future of Audit Report (July 2019), PwC

Technology Used in Forensic Audits

A forensic audit is an examination and evaluation of a firm's or individual's financial records to derive evidence, making use of investigative techniques and advanced technologies, that can be used in a court of law or legal proceeding. Different technologies may be used in forensic audits than in financial statement audits or similar technologies may be used differently taking into account the respective purposes of each of these types of audits. The IAASB has been encouraged to consider whether the financial statement audit should evolve to include procedures that are more forensic in nature. It has also been highlighted that auditors should receive training in forensic auditing.

To further explore this notion, the IAASB would like to hear more from forensic experts about current trends in both fraud perpetration and also how the latest technologies are being used in forensic audits today in order to better understand the full landscape of technologies used for fraud detection.

New and Emerging Technologies

Although not the focus of this roundtable, the IAASB is also interested to hear about new and emerging technologies that may be introduced in the future and that may be relevant during the discussions.

Purpose of a Financial Statement Audit

Before further exploring the topic of technology related to fraud, it is important to remember that the purpose of a financial statement audit as currently described in the International Standards on Auditing (ISAs) is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an auditor's opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. As the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.¹

“Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive.”

ISA 200, paragraph 5

Any possible additional or enhanced auditing requirements resulting from the use of advanced technology should be considered in the context of a financial statement audit, and also considering the benefits that will be provided compared with the costs of implementing such actions.

IAASB Information-Gathering Activities

As demonstrated by the highly publicized corporate collapses and global initiatives involving this topic, fraud in an audit of financial statements is a matter of utmost importance to the public interest. The IAASB is undertaking a range of information-gathering activities, of which this roundtable is just one aspect, to inform the nature and extent of any future actions on this topic.

IAASB Roundtable Discussions

This roundtable is the first in a series of three planned virtual roundtable discussions featuring participants from various professional and geographic backgrounds to help inform any future IAASB actions on the topic of fraud, as detailed below:



#	Roundtable	Date/Time
1	Fraud in the Digital Age: Impact of Technology Advancements on Fraud Perpetration and Detection	September 2, 2020 7:00AM – 10:00AM EDT
2	Exploring the “Expectation Gap” Related to Fraud and Going Concern in the Current Environment, and Feedback on the new and revised Auditor Reporting Standards	September 28, 2020 7:00AM – 10:00AM EDT
3	Unique Aspects of Fraud in Audits of Less Complex Entities	October 7, 2020 7:00AM – 10:00AM EDT

Other IAASB Activities Related to Fraud in an Audit of Financial Statements

In addition to the roundtables described above, we are also undertaking other targeted research and outreach activities to further inform any decisions about future standard-setting or other efforts by the IAASB. As each activity progresses, we will undertake further research and outreach, as necessary. Below are the planned activities underway:

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 3 and 5

- Analysis and assessment of comments submitted to the IAASB through other standard-setting projects and feedback forums that are relevant to these topics.
- Review of academic research, external publications and outcomes of jurisdiction-level reviews.
- Discussions with national standard setters, particularly in jurisdictions where relevant standard-setting efforts have taken place or are underway.
- A Discussion Paper targeted to solicit feedback from stakeholders and interested parties around the “expectation gap” with regards to fraud and going concern in an audit of financial statements.

DISCUSSION QUESTIONS

The questions below will be discussed within the breakout sessions detailed in the Roundtable Agenda included in Appendix A. The moderator in each breakout session will direct the discussion – participants will need to “raise their hand” using the Zoom functionality if they wish to contribute a response.



Technology Used to Perpetrate Fraud

1. What types of recent technology utilized by companies have created new vulnerabilities and fraud risks that auditors should consider when identifying and assessing risks of material misstatement due to fraud?
2. What types of new technologies are fraudsters using to perpetrate fraud, either from inside or outside the company?
3. What challenges does technology present in the landscape of fraud detection in today’s environment?

Technology Used by Auditors

1. How is technology being used to perform fraud-related procedures in a financial statement audit (to address the requirements in ISA 240²) in today’s environment?
2. What emerging technologies do you foresee being used for purposes of fraud-related procedures in financial statement audits in the near future?
3. What challenges does technology present in identifying and responding to identified fraud risks in a financial statement audit in today’s environment?

Technology Used in Forensic Audits

1. What are current trends you are seeing in how frauds are being perpetrated using evolving technologies?
2. How is technology being used in forensic audits in today’s environment?
3. What emerging technologies do you foresee being used for purposes of forensic audits in the near future?

Other

1. What other information or research related to technology used to perpetrate or detect fraud should the IAASB consider in determining the nature and extent of any possible future actions on this topic?

² ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

ROUNDTABLE AGENDA

Fraud in the Digital Age

IAASB-Facilitated Roundtable Discussion on Technological Advancements in Fraud Perpetration and Detection

September 2, 2020, 7:00AM EDT – 10:00AM EDT

7:00AM – 7:05AM (5 minutes)	IAASB Introduction and Welcome Moderator: Fiona Campbell
7:05AM – 7:25AM (20 minutes)	Keynote presentation Speaker: Representative from the <i>Fraud Advisory Panel</i>
7:25AM – 8:00AM (35 minutes)	High-Level Panel Discussion Moderated by Fiona Campbell Panelists: Sandy Herrygers, <i>Global Assurance Leader, Deloitte</i> Steph Ronander, <i>Chair of IRBA Fraud Task Group – South African Staff Audit Practice Alert on Fraud Considerations</i> Paul Pu, <i>Head of Forensic, KPMG in China</i> Eli Fathi, <i>CEO, Mindbridge Ai</i>
8:00AM – 8:10AM (10 minutes)	Break
8:10AM – 8:55AM (45 minutes)	Breakout room discussions <i>Assigned Breakout Rooms: (See Appendix B)</i> [Note: Breakout room discussions will not be live-streamed but will be recorded]
8:55AM – 9:05AM (10 minutes)	Break
9:05AM – 9:25AM (20 minutes)	Debrief of Key Points discussed in Breakout Sessions
9:25AM – 9:55AM (30 minutes)	Open Discussion
9:55AM – 10:00AM (5 minutes)	Closing Remarks Moderator: Fiona Campbell

APPENDIX B:

PARTICIPANTS

Moderator: Fiona Campbell, IAASB Deputy Chair (Assigned Breakout: A)

#	Participant Name	Country	Details	Assigned Breakout
1	Professor Ann Vanstraelen	The Netherlands	Professor of Accounting and Assurance Services at Maastricht University	A
2	Professor Miklos A. Vasarhelyi	United States	KPMG Distinguished Professor of Accounting Information Systems at Rutgers University	B
3	Kelly Devine	United States	Managing Director, Global Emerging Technology Standards at EY	C
4	Sandy Herrygers	United States	Risk and Financial Advisory Partner, Global Assurance Leader, Deloitte	D
5	Naoto Ichihara	Japan	Partner, AI Lab Leader, Assurance Innovation, Ernst & Young ShinNihon LLC	E
6	Matt Campbell	United Kingdom	Head of Audit Technology, KPMG in the UK	A
7	Steph Ronander	South Africa	Chair of IRBA Fraud Task Group – South African Staff Audit Practice Alert on Fraud Considerations	B
8	Wayne Basford	Australia	Audit & Assurance Partner, BDO in Perth, Australia	C
9	Alexander Geschonneck	Germany	Partner in Forensic practice at KPMG in Germany	D
10	Lynn Correia	Canada	Partner, Forensic, Financial Crime at Deloitte Canada	E
11	Fran Marwood	United Kingdom	Forensics Partner, PwC United Kingdom	A
12	Paul Pu	China	Head of Forensic, KPMG in China	B
13	Roger Darvall-Stevens	Australia	National Head of Fraud & Forensic Services, RSM Australia	C
14	Gregg Ruthman	Canada	Principal for Auditor General of Canada	D
15	Laura Hough	United Kingdom	Senior Manager - Forensics at BDO and Former CIPFA Head of Counter Fraud Policy and Strategy	E
16	Lucy Wang	United States	Center for Audit Quality Senior Manager, Anti-Fraud Initiatives	A
17	Representative from the Fraud Advisory Panel	United Kingdom	Fraud Advisory Panel	B
18	Brian Fox	United States	Vice President of Strategic Partnerships at Thomson Reuters, President & Founder of Confirmation	C
19	Eli Fathi	Canada	CEO, Mindbridge Ai	D
20	Mark Edmondson	United Kingdom	President & CEO, Inflo	E
21	Kae Kunishima	Japan	Deputy Director, Corporate Accounting and Disclosure Division, Policy and Markets Bureau, Japan FSA	A
22	Sarah Coulson	Canada	Industry Strategist at Caseware International Inc.	B

23	Martijn Duffels	Netherlands	Chair - Standards Coordination Working Group, IFIAR	C
24	David Lyford-Smith	United States	Technical Manager, ICAEW	D
#	Official Observer Name	Country	Details	Assigned Breakout
1	James Barbour	United Kingdom	IESBA Technical Advisor	E
2	Ken Siong	United States	IESBA Senior Technical Director	A
3	Kam Leung	United States	IESBA Principal	B
4	Claudia Deodati	Spain	Director of Oversight, Public Interest Oversight Board	C
5	Gonzalo Ramos	Spain	Secretary General, Public Interest Oversight Board	D
6	Markus Grund	Germany	Member, Public Interest Oversight Board	E
7	Nerea Lastras	Spain	Oversight Advisor, Public Interest Oversight Board	A
8	Barbara Vanich	United States	Deputy Chief Auditor, PCAOB	B
9	Donny Shimamoto	United States	IFAC Technology Advisory Group	C
#	IAASB Members and Staff Observers	Country	Details	Assigned Breakout
1	Tom Seidenstein	United States	IAASB Chair	D
2	Fiona Campbell	United States	IAASB Deputy Chair	A
3	Bob Dohrer	United States	IAASB Member	B
4	Len Jui	China	IAASB Member	E
5	Imran Vanker	South Africa	IAASB Member	A
6	Josephine Jackson	United Kingdom	IAASB Member	C
7	Sachiko Kai	Japan	IAASB Member	B
8	Fabien Cerutti	France	IAASB Technical Advisor	C
9	Willie Botha	United States	IAASB Technical Director	D
10	Beverley Bahlmann	United States	IAASB Deputy Director	A
11	Brett James	United States	IAASB Deputy Director	E
12	Natalie Klonaridis	United States	IAASB Principal	D
13	Yvonne Chan	Canada	IAASB Manager	B
14	Hanken Talatala	United States	IAASB Manager	E
15	Angela Donnelly	United States	IAASB Staff Fellow	C

Breakout Session Moderators and IAASB Staff Representatives

Breakout Room	Moderator	IAASB Staff Representative
A	Fiona Campbell	Beverley Bahlmann
B	Bob Dohrer	Yvonne Chan
C	Josephine Jackson	Angela Donnelly
D	Willie Botha	Natalie Klonaridis
E	Brett James	Hanken Talatala