Agenda Item 6: 
Fraud in an Audit of Financial Statements
Objectives and Order of Discussion

Objectives:

– Provide the Board with an update on information-gathering and brainstorming activities performed since the August 2020 meeting (provided in Agenda Item 6 Fraud Issues Paper)

– Obtain the Board's direction on the Fraud Working Group’s preliminary views on the issues and challenges identified to date with regard to specific requirements within ISA 240

Order of Discussion:

– Working Group Chair introduction and brief summary of activities performed (comprehensive summary provided in Agenda Item 6 Fraud Issues Paper)

– IAASB Staff update on other activities performed since posting of Board papers (not included in Agenda Item 6 Fraud Issues Paper)

– Board Discussion on preliminary Working Group views on specific issues and challenges identified in ISA 240
Information-Gathering Activities for Fraud

- Project Proposals
  - Academic research and consideration of initiatives undertaken by others
  - Roundtables and stakeholder outreach
  - Discussion Paper (Comments due February 2021)
  - Working Group brainstorm of known issues and challenges in ISA 240
  - Other activities (as needed)
Additional Outreach Performed and Planned

- Information-gathering activities and outreach performed to date is summarized in the Fraud issues paper.
- Additional outreach performed since posting of Board papers:
  - Investor outreach
    - South Africa CRUF meeting
    - UK CRUF meeting
  - Scheduled outreach
    - Tapestry Networks Audit Committee outreach
      (Scheduled for February 5, 2021)
  - Continued outreach with various stakeholder groups once comment letters are received.
The FRC launched a consultation on the proposed revision of its UK auditing standard ISA (UK) 240

Some changes proposed which were not explicitly discussed in the IAASB’s Discussion Paper or Working Group brainstorm meeting:

- Requirement for the auditor to remain alert for conditions that indicate a record or document may not be authentic.
- Requirement for auditor to inquire with those responsible for dealing with allegations of fraud.

Working Group will further consider UK work in tandem with responses to the DP
The Board is asked for its direction on the preliminary views expressed for the following theme (detailed in table in Section IV of the Fraud Issues Paper):

#1. Rebuttal of presumed risk of material misstatement due to fraud in revenue recognition.
The Board is asked for its direction on the preliminary views expressed for the following theme (detailed in table in Section IV of the Fraud Issues Paper):

#2. Clarify the extent of journal entry testing required.
The Board is asked for its direction on the preliminary views expressed for the following theme (detailed in table in Section IV of the Fraud Issues Paper):

#3(a)-(b). Supplemental audit requirements (additional to ISA 240) in other jurisdictions.
The Board is asked for its direction on the preliminary views expressed for the following themes (detailed in table in Section IV of the Fraud Issues Paper):

**Themes #4-6:**
- #4. Other audit procedures required in response to risk of management override of controls beyond journal entry testing (separately addressed in theme #2)
- #5. Clarity around procedures required when fraud is suspected or identified
- #6. Fraud Brainstorming
The Board is asked for its direction on the preliminary views expressed for the following themes (detailed in table in Section IV of the Fraud Issues Paper):

**Themes #7-9:**
- #7. Unpredictability procedures
- #8. Whistleblower hotline
- #9. Emphasize certain fraud risks more clearly in ISA 240
The Board is asked whether there are any other matters the Fraud Working Group should consider as it continues with its information-gathering activities as they relate to ISA 240 and its requirements for purposes of proposing a way forward in September 2021.