Fraud in an Audit of Financial Statements

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IAASB Meeting
December 5-9, 2022
Agenda Item 5
Agenda: Selected Topics on Fraud and Stakeholder Engagement

- Fraud and Suspected Fraud
- Transparency in the Auditor’s Report on Fraud
- Updated Drafting

Stakeholder Engagement
- IFAC’s SMPAG Letter
- International Organization of Securities Commissions’ Committee 1, Auditing Sub-Committee
- General Outreach Program
Fraud and Suspected Fraud

- Responsibility of the auditor
- Definition of fraud for the purposes of the ISAs
- Fraud or suspected fraud identified by the auditor
- Required additional audit procedures
- Possible conclusions
Matters for IAASB Consideration

1. The Board is asked for its views on the scenarios, including whether there are other circumstances the Task Force should consider when enhancing the requirements and application material to address the auditor’s response to fraud or suspected fraud identified by the auditor. See paragraphs 14 and 15.

2. The Board is asked for its views on the proposed additional audit procedures ("steps") that the auditor will be required to perform in all instances when fraud or suspected fraud is identified by the auditor. The Task Force is also interested if the Board believes other audit procedures should be performed. See paragraph 16.

3. The Board is requested to provide feedback on the possible actions that auditor may consider when determining the implications for the audit engagement as a whole, including whether the auditor should be considering other actions. See paragraph 17.

Fraud and Suspected Fraud

Relevant paragraphs in Agenda Item 5-B: 4C-4CA and A5Aa,A28J-A28K, A33A-A33B
Transparency in the Auditor’s Report on Fraud

More transparency is needed in the auditor’s report

Include in a separate section of the auditor’s report

Applicable to listed (or public interest) entities

- Enhanced description of the auditor’s responsibilities with respect to fraud
- Description of the identified and assessed fraud risks and the auditor’s response
  - Using a mechanism similar to KAM
  - Including a filter to only communicate the most significant fraud risks
- Explore how to communicate identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud
Transparency in the Auditor’s Report on Fraud

• Proposed mechanism to report fraud risks is similar to Key Audit Matters (KAM)
  o Filter: RoMM due to fraud that required most significant auditor attention

• Holistic consideration of changes to the auditor’s report
  o Fraud, Going Concern, Listed Entity and Public Interest Entity
  o Task Force discussed several options where to place identified fraud risks and the auditor’s response in the auditor’s report
    ➢ Preferred option is to integrate the identified fraud risks and the auditor’s response in the KAM section

• Requirement to communicate significant deficiencies in internal control that are relevant to the prevention and detection of fraud
  o For deficiencies that relate only to the fraud matter disclosed in the auditor’s report
  o Further discussions warranted by Task Force
4. The Board is asked for its views on the proposed way forward on transparency in the auditor’s report. In particular:

   (a) The mechanism the Task Force is proposing as a filter to determine the identified fraud risks to be communicated in the auditor’s report. See paragraphs 23 and 25.
   
   (b) The Task Force’s proposals for communicating identified fraud risks and the auditor’s response in the auditor’s report. See paragraphs 26 and 35.
   
   (c) The Task Force’s proposals to address the issue of identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements. See paragraphs 36 and 38.
   
   (d) The indicative drafting as presented in Agenda Item 5-B.
5. The Board is asked for its views on proposed ISA 240 (Revised) as set out in Agenda Item 5-B. The Board is requested to provide comments on the requirements and the related application material at the same time.

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Way Forward

- Discussions with the Board on selected sections of proposed ISA 240 (Revised) - December 2022
- Expected approval of exposure draft - September 2023
- Discussions with the Board on proposed ISA 240 (Revised) - March 2023 and June 2023
- Expected approval of final revised standard - March 2025