Fraud in an Audit of Financial Statements

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IAASB Meeting
September 15, 2022
Agenda Item 6
Mixed views on how the auditor’s report could be more transparent with respect to fraud

Highlighted that disclosures in the auditor’s report should be entity specific, and not all identified risks of material misstatement due to fraud need to be disclosed

General support for changes to the Introduction, with requests to clarify the auditor’s responsibilities related to fraud that is not material

Affirmed that management and TCWG are primarily responsible for preventing and detecting fraud, and the standard should acknowledge the role of all stakeholders

SMPAG Letter: Support for a “KAM-like” approach
Transparency in the Auditor’s Report on Fraud

1. Describing the auditor’s approach to fraud risks

2. Describing the identified and assessed fraud risks, and the auditor’s response to the assessed fraud risks

3. 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

4. Emphasizing the use of the existing requirements for the communication of Key Audit Matters for listed entities where there is a fraud risk

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

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

- The profession
- Those in charge of adoption, implementation and enforcement
- Users of financial statements
- Preparers
- Other users
- Other users
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?

Is There a Need for Transparency on Fraud in the Auditor’s Report?

Should the Auditor’s Report Include Entity-Specific Information or Standardized Statements about Fraud?

What Type of Entity-Specific Information Should Be Included in the Auditor’s Report?

Should the Additional Disclosures on Fraud Be Included in a Separate Section on Fraud?

What Should the Scope Be (Listed Entities or All Entities)?
1. The Board is asked for its views on the proposed way forward as set out in paragraphs 48–67 of Agenda Item 6, based on the Task Force's summary and discussion of matters as presented in Section I. Specifically, the Board is asked for its views on the proposal to communicate in the auditor's report information about the proposal to include:
   a) The auditor’s responsibilities as it relates to fraud in the audit of the financial statements
   b) The identified and assessed fraud risks and the auditor’s response to the assessed risks
   c) Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements

2. The Board is asked for its views on whether the proposed changes should apply to listed entities or all entities.
Based on comments from the Board in June 2022, enhanced and clarified requirements and application material for sections of proposed ISA 240 (Revised) that refer to, or expand on, ISA 315 (Revised 2019)

- Restructuring of the sections in ISA 240 that build on ISA 315 (Revised 2019)
- Development of the application material
- Duplication of what is already required in ISA 315 (Revised 2019)
2. The Board is asked for its views on the drafting as presented in Agenda Item 6-B and particularly whether the restructuring has addressed the Board’s concerns that the risk assessment procedures performed in proposed ISA 240 (Revised) are intended to refer to, or expand on, and should not be duplicative of what is already required in ISA 315 (Revised 2019)
Way Forward

December 2022

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

Q3 2023

Expected approval of exposure draft