

# Fraud - Issues

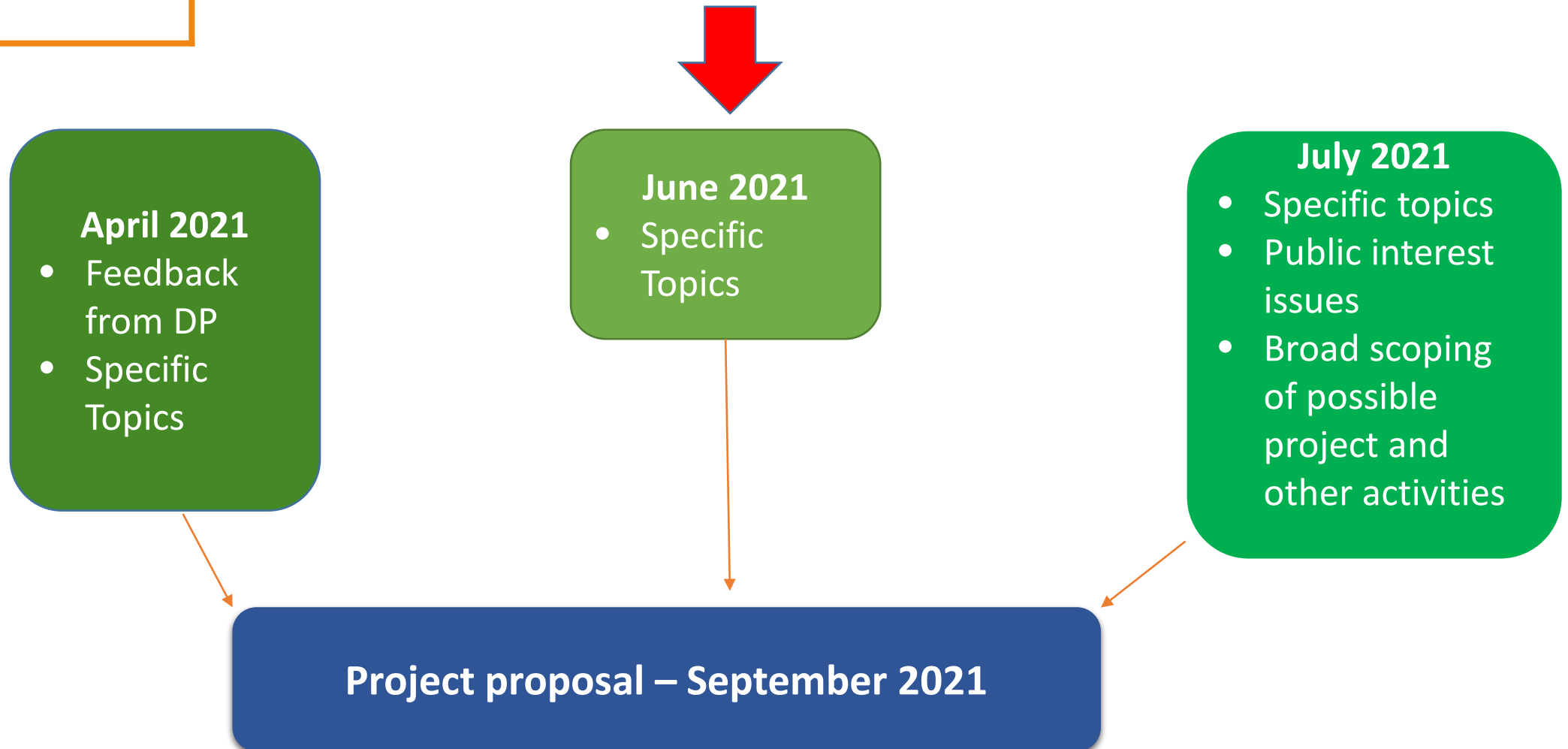
*Agenda Item 3-A*

*IAASB June 2021 Meeting*

*Lyn Provost, Fraud Working Group Chair*



# Where Are We Now?



# Objective of the Discussion

- To progress the discussion on fraud-related topics during the April 2021 IAASB meeting by further exploring those matters where mixed views were expressed by respondents to the Discussion Paper and other outreach.
- This will help inform the Fraud Working Group in developing a project proposal.

# Introductory Language in ISA 240 - Inherent Limitations of an Audit

- Strong encouragement from Monitoring Group members and limited other stakeholders to reconsider the language in paragraphs 5 and 6 of ISA 240 (i.e., in the introductory paragraphs) to clarify the risks of the inherent limitations of an audit in relation to the auditor's responsibilities.

## **Possible Action #1:**

The WG recommends:

- a) Possible standard-setting actions to re-order the introductory paragraphs in ISA 240 and to explore possible enhancements to clarify the auditor's responsibilities.
- b) Further explore whether standard-setting is needed to enhance the application material in ISA 200.
- c) Education about the role and responsibilities of the auditor on fraud in a financial statement audit.

# Matters for IAASB Consideration

*Topic: Introductory Language in ISA 240 - Inherent Limitations of an Audit*

Board members are asked for views on:

- a) Whether the key matters from respondents' comments have been appropriately identified in relation to this topic.
- b) The recommended possible action for this topic.

# Forensic Specialists

- Broad response: Should not require use of forensic specialists on all audits.
- However, mixed views about whether to:
  - Require use of forensic specialists in some circumstances
  - Require use of forensic specialists for certain types of audits or in certain areas of the audit; or
  - Not require use of forensic specialists and leave to the auditors' judgment.
- Respondents also highlighted possible benefits of forensic training for auditors.

# Forensic Specialists (cont.)

## Possible Action #2:

The WG recommends:

- a) Consideration of use of forensic specialists when there is identified or suspected fraud in the standard
- b) Exploring possible changes for role of forensic specialists to assist with risk assessment procedures, including in the engagement team discussion

*For items a) and b) above, the WG will consider scalability and undertake work to describe the concept of a “forensic specialist”.*

- c) Developing application material to provide clarity around when it may be appropriate to consider use of forensic specialists

While forensic training for accountants is outside remit of the IAASB, WG recommends continued dialogue with others in the financial reporting ecosystem to foster further consideration about how such training could be encouraged

# Matters for IAASB Consideration

*Topic: Forensic Specialists*

Board members are asked for views on:

- a) Whether the key matters from respondents' comments have been appropriately identified in relation to this topic.
- b) The recommended possible action for this topic.





# Definition of Fraud

- The term “fraud” is used in different ways to how it is defined in ISA 240 for the purpose of an audit
- Without a common understanding, this may be contributing to the expectation gap (i.e., what is expected that auditor’s do on fraud in an audit of financial statements)

# Definition of Fraud (cont.)

## **Possible Action #3:**

The WG does not recommend expanding the definition of fraud.

The WG recommends one of the following two options (for Board discussion):

- a) Option 1: Enhance application material to clarify how other concepts often associated with fraud (including bribery and corruption) interact with the concept of fraud for purposes of a financial statement audit
- b) Option 2: Issue non-authoritative guidance to clarify how other concepts often associated with fraud (including bribery and corruption) interact with the concept of fraud for purposes of a financial statement audit.

The WG also recommends 'educational efforts' about the responsibilities of the auditor for fraud in a financial statement audit (including what the definition of fraud encompasses)

# Matters for IAASB Consideration

## *Topic: Definition of Fraud*

Board members are asked for views on:

- a) Whether the key matters from respondents' comments have been appropriately identified in relation to this topic.
- b) The recommended possible action for this topic, including their preference as to Option 1 or Option 2 presented.

# Suspicious Mindset

- Notwithstanding that the IAASB agreed in April 2021 to not further pursue the concept of ‘suspicious mindset’ more broadly in ISA 240, it was agreed to further explore whether the concept needed to be further considered for use in ISA 240 in limited circumstances

**Possible Action #4:**

The WG does not recommend introducing the concept of a “suspicious mindset” in the ISAs.

Rather, the WG recommends:

- a) Enhancing and emphasizing the current concept of professional skepticism through requirements, application material and non-authoritative guidance.
- b) Collaborating with other IAASB workstreams in developing possible enhancements or non-authoritative guidance.

# Matters for IAASB Consideration

*Topic: Suspicious Mindset*

Board members are asked for views on:

- a) Whether the key matters from respondents' comments have been appropriately identified in relation to this topic.
- b) The recommended possible action for this topic.

# Rebuttable Presumption – Fraud in Revenue Recognition

- There were mixed views about how the issues and challenges identified on the rebuttable presumption of risks of fraud in revenue recognition could be addressed, which included whether:
  - The rebuttable presumption of risk of fraud should be expanded to areas beyond revenue recognition
  - The rebuttable presumption of risk of fraud in revenue recognition should be removed
- In addition, respondents noted clarity is needed about when and how to rebut the presumption of risks of fraud in revenue recognition

# Rebuttable Presumption (cont.)

## **Possible Action #5:**

The WG does not recommend expanding or removing the rebuttable presumption of risk of fraud in revenue recognition.

Rather, the WG recommends enhancing the application material in ISA 240 to:

- a) Highlight other areas that may be susceptible to material misstatement due to fraud
- b) Clarify when it may be appropriate to rebut the presumption of risks of fraud in revenue recognition, and how this can be done
- c) Consider public sector considerations

The WG also recommends development of non-authoritative guidance to clarify considerations specific to certain industries

# Matters for IAASB Consideration

*Topic: Rebuttable Presumption*

Board members are asked for views on:

- a) Whether the key matters from respondents' comments have been appropriately identified in relation to this topic.
- b) The recommended possible action for this topic.



# External Confirmations

- Although there was not a strong call for changes on external confirmations in relation to fraud, this is an area of focus in the current environment by many in the financial reporting ecosystem
- The WG had the view that further exploration was needed to determine whether changes to the ISAs should be proposed in the project proposal for external confirmations

# External Confirmations (cont.)

**Possible Action #6:**

The WG recommends:

- a) Coordinating with the Audit Evidence Task Force
- b) Modernizing application material in ISA 240 for developments on technology (including related to external confirmations)
- c) Exploring whether enhanced application material in ISA 240 or non-authoritative guidance is needed to address
  - a) Clarification of auditor procedures when there are non-responses;
  - b) Emphasis of the usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud; and
  - c) Considerations around modernizing negative confirmations in line with current practice.

# Matters for IAASB Consideration

## *Topic: External Confirmations*

Board members are asked for views on:

- a) Whether the key matters from respondents' comments have been appropriately identified in relation to this topic.
- b) The recommended possible action for this topic.

Board Member are also asked whether there are other matters the WG should consider as it progresses its work to develop a project proposal.



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