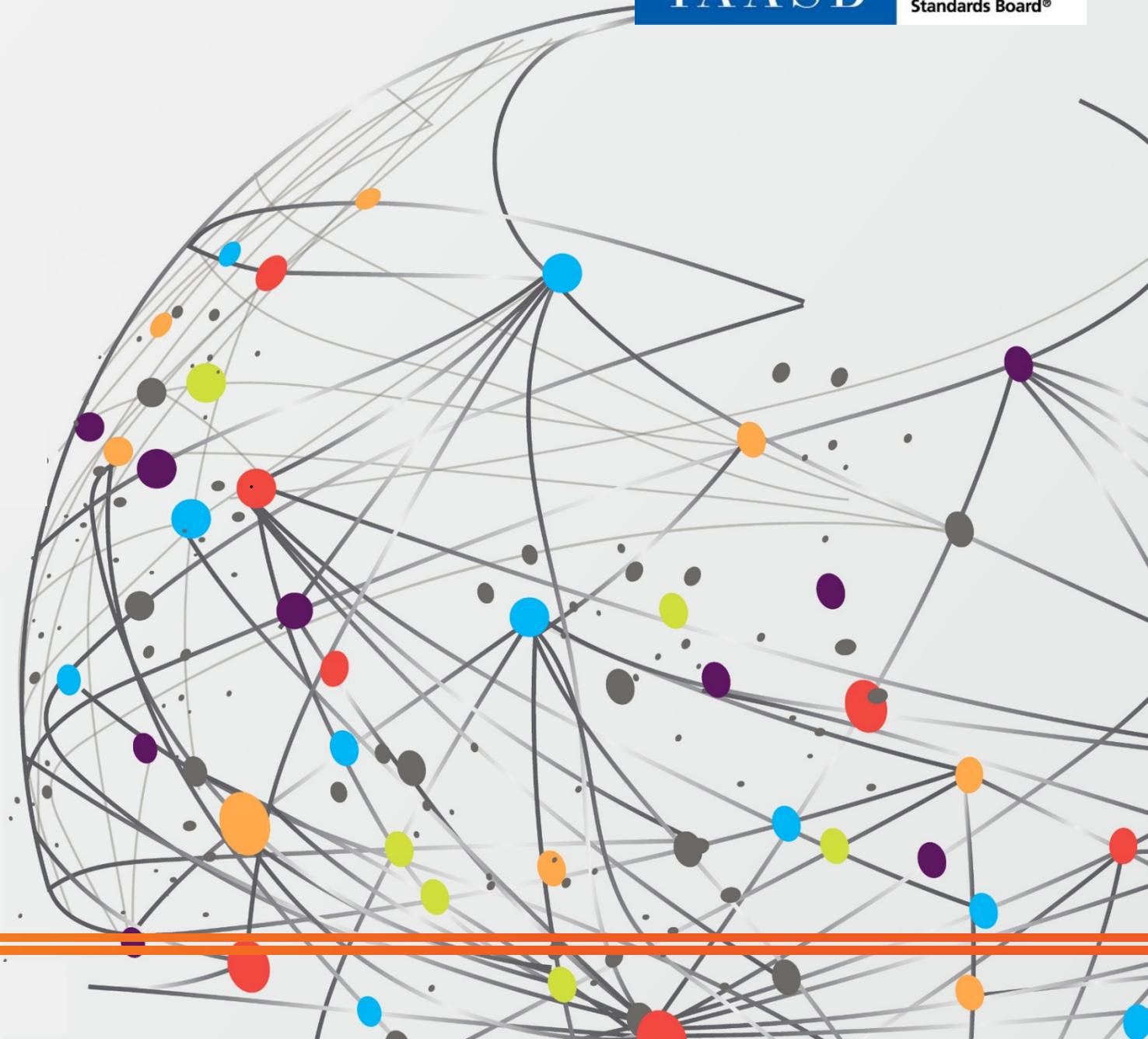


# Fraud - Issues

*Agenda Item 2*

*IAASB July 2021 Meeting*

*Lyn Provost, Fraud Working Group Chair*



# Where Are We Now?

Roundtable Discussions  
and Other Stakeholder  
Outreach

Academic Review and  
Consideration of  
Initiatives of Others

Discussion Paper  
Responses

Root Cause Analysis

Information Gathering and Research

Public Interest  
Issue #1:  
Determining Role  
and  
Responsibilities of  
the Auditor

Public Interest  
Issue #2:  
Enhancing  
Connection to  
Other ISAs

Public Interest  
Issue #3:  
Facilitating  
Appropriate  
Transparency

Public Interest  
Issue #4:  
Fostering Exercise  
of Professional  
Skepticism

Public Interest  
Issue #5:  
Addressing  
Advances in  
Technology

# Objectives of the Board Discussion

Discuss the remaining topics where mixed views were expressed by respondents to the DP and other outreach

Discuss the overarching public interest issues that will be addressed by a project on fraud, and the possible project objectives and broad project scope

# More Transparency in the Auditor's Report

- Mixed views from respondents on whether or not more transparency is needed in the auditor's report describing fraud-related matters

## **Possible Action #1:**

The WG recommends further exploration of including a requirement for the auditor to explain in the auditor's report to what extent the audit was considered capable of detecting irregularities, including fraud.

The WG also recommends the development of non-authoritative guidance on when fraud-related matters are KAMs.

# Matters for Board Consideration – Transparency

The Board is asked for its views on:

- Whether the key matters from the respondent's comments were appropriately identified for this matter.
- The recommended possible actions for this matter to help inform the development of a project proposal.



# Making the Engagement Team Discussion More Robust

- Questions raised on whether to:
  - Require specific topics for the engagement team discussion
  - Enhance requirements for timing and frequency of discussion
  - Require attendance of relevant specialists

## **Possible Action #2:**

The WG recommends standard-setting to:

- Require specific topics to be included in the engagement team discussion.
- Develop application material on considerations when it may be beneficial to hold further engagement team discussions.
- Develop application material on considerations when it may be beneficial for specialists to attend the engagement team discussion.

# Matters for Board Consideration – Team Discussions

The Board is asked for its views on:

- Whether the key matters from the respondent's comments were appropriately identified for this matter.
- The recommended possible action for this matter to help inform the development of a project proposal.



# Clarifying the Relationship Between ISA 240 and ISA 250 (Revised)

- Since fraud is a matter that is often interrelated with non-compliance with laws and regulations and may often constitute an illegal act, it is unclear whether ISA 240 or ISA 250 (Revised) applies, or both.

## **Possible Action #3:**

The WG recommends:

- Developing application material in ISA 240 highlighting the interrelationship between fraud and non-compliance with laws and regulations.
- Developing non-authoritative guidance.

# Matters for Board Consideration – ISA 240 and ISA 250

The Board is asked for its views on:

- Whether the key matters from the respondent's comments were appropriately identified for this matter.
- The recommended possible action for this matter to help inform the development of a project proposal.



# Addressing Instances When Fraud or Suspected Fraud is Identified During the Audit

- Respondents noted ISA 240 is not clear on how to respond appropriately to fraud or suspected fraud identified during the audit.

## **Possible Action #4:**

The WG recommends:

- Developing a separate section for when fraud is suspected and reorganizing existing requirements and application material into that section. Then making possible enhancements to requirements if identified through that process (and if needed).

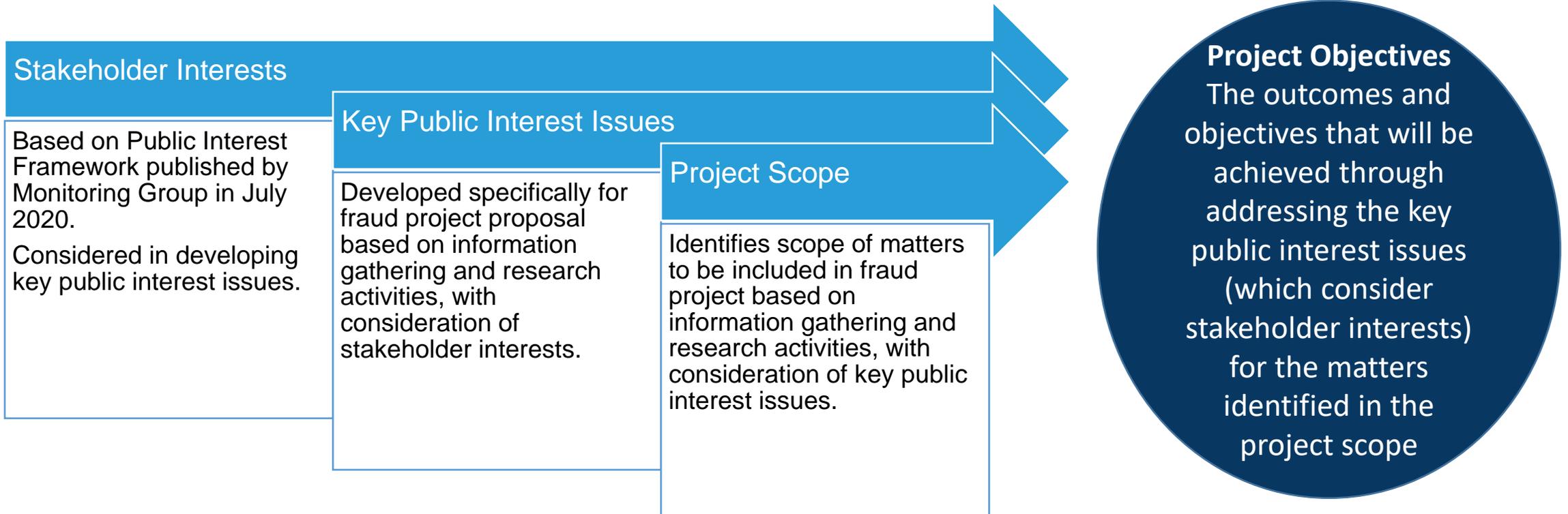
# Matters for Board Consideration – Actual/Suspected Fraud

The Board is asked for its views on:

- Whether the key matters from the respondent's comments were appropriately identified for this matter.
- The recommended possible action for this matter to help inform the development of a project proposal.



# Consideration of Public Interest Framework



# Public Interest Issue #1

## Determining the appropriate role and responsibilities of the auditor in relation to fraud in an audit of financial statements

- Emphasizing the auditor's responsibilities in relation to fraud irrespective of inherent limitations of the audit.
- Clarifying the interrelation between concepts such as bribery and corruption with the definition of fraud for purposes of a financial statement audit.
- Increasing the robustness of fraud-related audit requirements.

# Public Interest Issue #2

## Enhancing the connection of ISA 240 to the IAASB's other standards and fostering an integrated risk-based approach

- Promote integrated fraud-related audit procedures with full suite of ISAs that result in high quality audits
- Including, but not limited to, promotion of integrated fraud audit procedures with:
  - ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*
  - ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

# Public Interest Issue #3

## Facilitating appropriate transparency in communications between the auditor and TCWG and within the auditor's report

- Transparency in the auditor's report
- Communication with those charged with governance

# Public Interest Issue #4

## Fostering the exercise of professional skepticism in the auditor's fraud-related procedures

- Emphasizing and enhancing the concept of professional skepticism

# Public Interest Issue #5

## Addressing advances in technology relevant to the auditor's responsibilities relating to fraud

- Enhancements to ISA 240 to be relevant for how technology is used in today's business environment
- Recognizing and responding to emerging issues raised by stakeholders

# Matters for IAASB Consideration

- Have the public interest issues relating to fraud been appropriately identified? Are there others that should be considered?
- Have the public interest issues been appropriately mapped to the stakeholder interests to be served by addressing the issues?

# Project Objectives

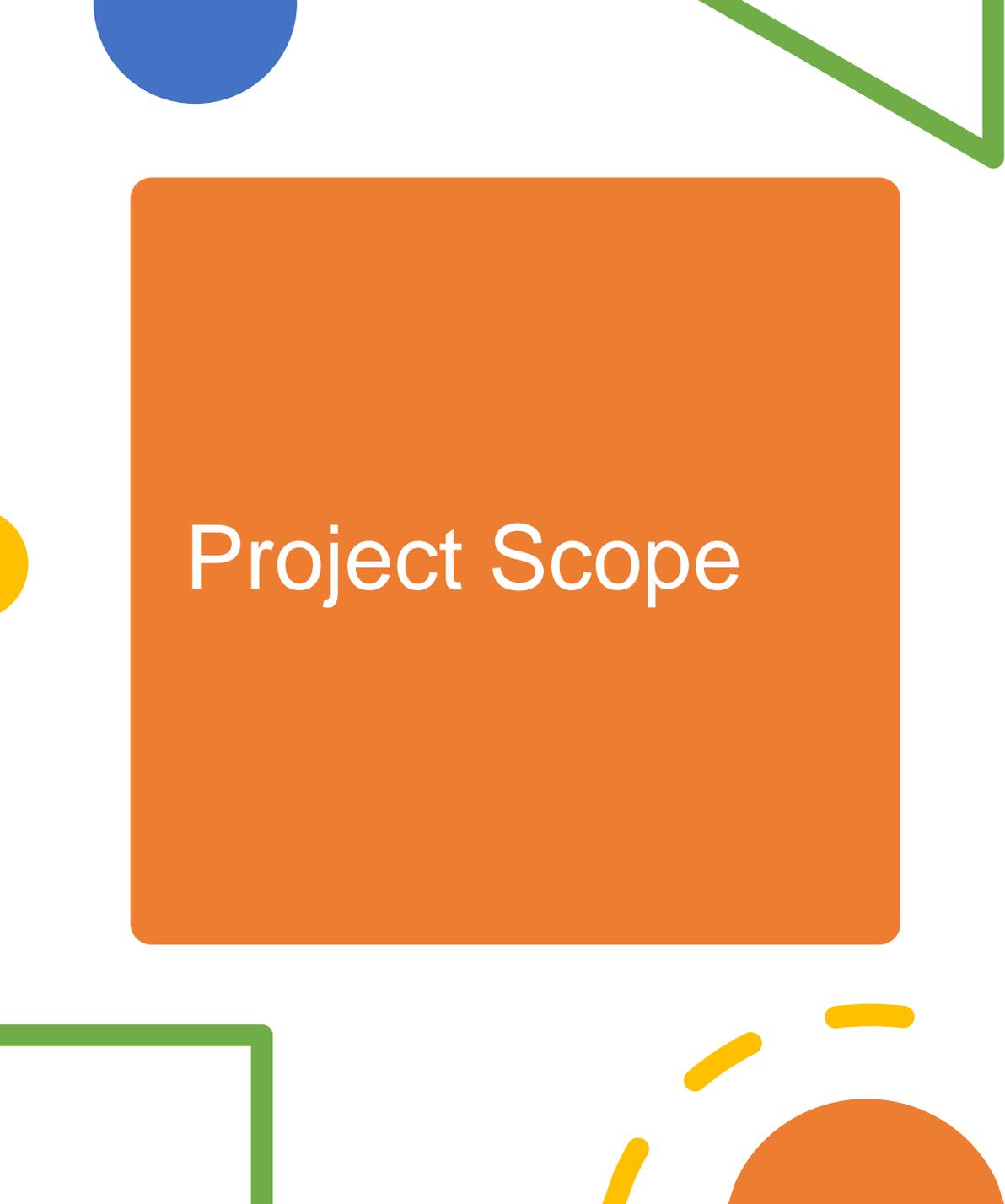
Establish more robust requirements and application material

Provide clarity in areas where changes to requirements will not be made but where stakeholders expressed confusion or inconsistency in application.

For new and revised requirements, undertake implementation support activities.

# Matters for IAASB Consideration

- Have the project objectives been appropriately described to address the public interest issues that have been identified?



# Project Scope

- Standard-setting
- Non-authoritative guidance
- Education
- Engagement with Others

# Matters for IAASB Consideration

- Are the matters identified in Appendix E complete and are the recommended possible actions associated with each matter appropriate?
- In reference to paragraphs 94 and 95, and recognizing the need to prioritize standard-setting activities, are there other educational materials or efforts, or other actions the WG should consider in developing the project proposal?

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