

Fraud in an Audit of Financial Statements

Lyn Provost, Fraud Task Force Chair

**IAASB Meeting
March 16, 2022
Agenda Item 4**

IAASB CAG and SMP Advisory Group



IAASB CAG

- Alternatives for transparency in reporting on fraud are appropriate to discuss with users of the financial statements
- Scalability needed when reporting on fraud
- Others in the financial reporting ecosystem also play an important role in addressing the “expectation gap”
- Broadly supportive of the proposed changes addressing risk identification and assessment, and communication with TCWG

SMP Advisory Group

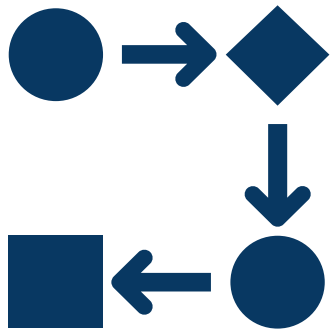
- Broadly supportive of proposed changes
- Main concerns: (i) no real change in audit approach, (ii) scalability and (iii) disclosing sensitive information

Relationship between ISA 240 and Other ISAs

ISA 240 expands on how ISA 315 (Revised 2019) and ISA 330 are to be applied in relation to the ROMM due to fraud



Identifying and Assessing the ROMMs Due to Fraud



Structure and
Flow



Content –
strengthen and
enhance
procedures for risk
identification and
assessment

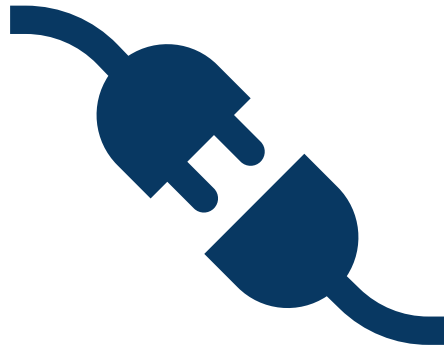
Proposed changes to restructure ISA 240 to align with a similar flow in ISA 315 (Revised 2019)

Proposed changes to demonstrate the integrated nature of ISA 240 and ISA 315 (Revised 2019), including strengthening and enhancing requirements for a more robust fraud risk identification and assessment

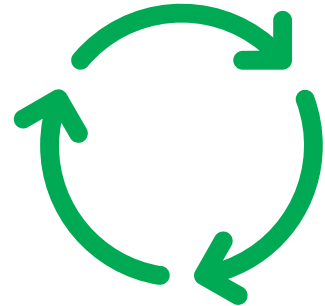
Matters for IAASB Consideration

1. The IAASB is asked for views on restructuring ISA 240 to follow a similar flow as ISA 315 (Revised 2019) as explained in paragraph 12 of **Agenda Item 4**.
2. The Board is asked for its views on:
 - (a) The proposed changes to the content of the restructured ISA 240 to enhance and strengthen the procedures for identifying and assessing ROMMs due to fraud as set out in paragraphs 13–36 of **Agenda Item 4**.
 - (b) Maintaining Appendix 1 on the fraud risk factors in ISA 240 as set in paragraph 38 of **Agenda Item 4**.
3. Are there any other changes from the revisions to ISA 315 (Revised 2019) that should be addressed in ISA 240 more explicitly or any other related matters the Fraud Task Force should consider as it develops the changes to revise ISA 240?

Communication with TCWG



Two-Way
Communication



Ongoing Nature
of
Communication

Proposed changes to encourage two-way communication with those charged with governance (TCWG), including specific discussions about the entity's ROMMs due to fraud

Proposed changes to emphasize the ongoing nature of communication with TCWG about fraud throughout the audit

Matters for IAASB Consideration

4. The Board is asked for its views on the proposed changes in ISA 240 to enhance the two-way communication with TCWG and emphasize the ongoing nature of communication with TCWG about fraud throughout the audit (see paragraphs 47–72 of **Agenda Item 4**).
5. Are there any other changes that should be addressed in ISA 240 to enhance the communication with TCWG or any other related matters the Fraud Task Force should consider as it develops the changes to revise ISA 240?

Transparency in Reporting on Fraud

Exploring revisions to ISA 240 by undertaking targeted outreach to users of general-purpose financial reports on these alternatives

01st Alternative

Detailed description of the fraud risks identified, the auditor's response and the auditor's findings/observations in the auditor's report

02nd Alternative

High-level description of the fraud risks identified and how the auditor addressed the fraud risks in the auditor's report

03rd Alternative

Description of the extent to which the audit is considered capable of identifying and assessing ROMMs due to fraud in the auditor's report

04th Alternative

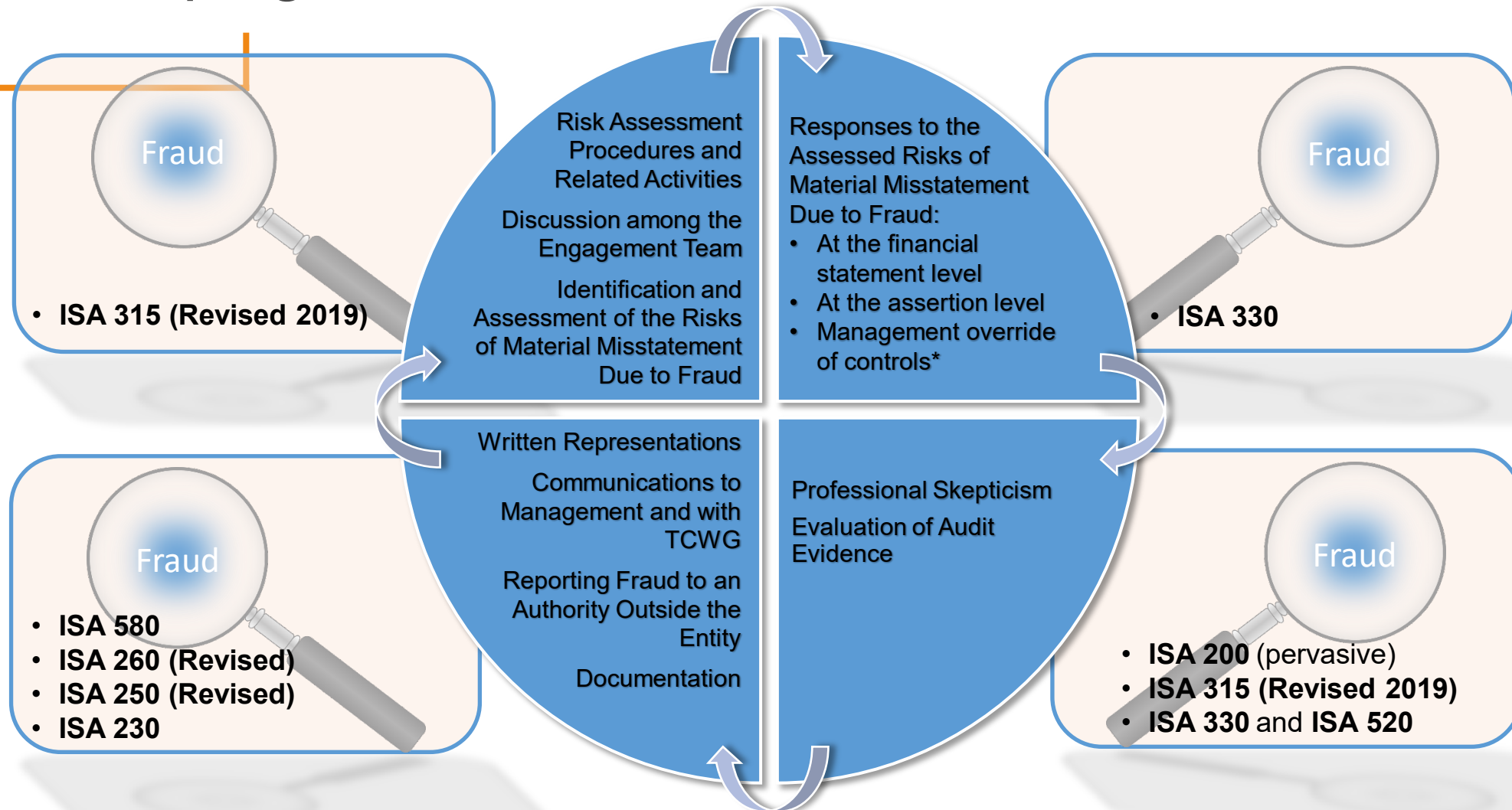
Mechanism other than the auditor's report to enhance the transparency

Matters for IAASB Consideration

The Fraud Task Force is interested in the Board's view on:

6. The alternatives presented in paragraph 104 of **Agenda Item 4**.
7. Whether the three alternatives presented in paragraph 104 of **Agenda Item 4** represent the views of respondents to the Discussion Paper and whether there are any other alternatives that should be presented to users of the financial statements.
8. The scope of enhanced disclosures in the auditor's report as set out in paragraph 110 of **Agenda Item 4**.

Developing Non-Authoritative Guidance for ISA 240



* Includes specific audit procedures to address journal entries, biases in accounting estimates (**ISA 540 (Revised)**^x), and significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual (including related party relationships and transactions in **ISA 550**^{x1}).

Matters for IAASB Consideration

9. Does the Board agree that the non-authoritative guidance is designated as a “Task Force Publication” to be developed and cleared through Channel 3 as contemplated in the Framework?
10. The Board is asked for its views on the non-authoritative guidance as set out in **Agenda Item 4-A**, including the overall presentation and content.

Way Forward

Outreach with users of the
financial statements

Issuance of Non-
Authoritative Guidance

April/ May 2022

June 2022

Dec. 2022/ March 2023

June 2023

Next discussion with
IAASB (selected topics
and drafting)

Discussion with IAASB

Expected approval of ED-240

Request of Board Members to Share Contacts



Please share any contacts with or about users of the financial statements with Staff supporting the Fraud Task Force



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