

Fraud in an Audit of Financial Statements

Julie Corden, Fraud Task Force Chair
Jasper van den Hout, IAASB Director
Angelo Giardina, IAASB Principal

IAASB Meeting
September 18–21, 2023
Agenda Item 3

Feedback from the September 2023 CAG Discussion

- **Risk Identification and Assessment**
 - Applying the 'fraud lens' on risk identification and assessment throughout the audit and up to the issuance of the auditor's report
- **Fraud or Suspected Fraud**
 - Communicating fraud or suspected fraud to those charged with governance (TCWG) (e.g., audit committee) first, particularly when management may be involved, to avoid the risk of tipping off those involved in the matter
 - Making explicit considerations of the ramifications of the fraud, including the risk of regulatory action, risk of litigation and reputational consequences, in determining whether identified misstatements due to fraud are material
- **Implications for the Auditor's Report**
 - Considering the implications (e.g., risk of legal liability) arising from:
 - Communicating key audit matters (KAMs) related to fraud that have not been disclosed by the entity in the financial statements
 - Including a statement to the effect that there are no KAMs related to fraud to communicate in the auditor's report
- **Other Topics**
 - Considering scalability in finalizing the exposure draft of proposed ISA 240 (Revised)
 - Clarifying whether a concept of materiality applies when obtaining audit evidence about the completeness of the population of all journal entries and other adjustments
 - Considering the impact of the proposed changes on the entity's behavior and reporting in the financial statements, with respect to matters related to fraud

Meet the Fraud Task Force



Applying the fraud lens in everything that we do

Coordination with IESBA, Task Forces, Consultation Groups and Experts



Promoting Consistent Practice and Changing Auditor Behavior

Reinforcing the exercise of PROFESSIONAL SKEPTICISM throughout the audit

Clarity and emphasis
on the auditor's
responsibilities

Applying a *fraud lens*
on risk identification
and assessment

Transparency on Key
Audit Matters (KAMs)
related to fraud in the
auditor's report



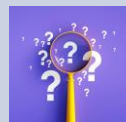
Ongoing communications
throughout the audit with
management and TCWG
about fraud-related
matters

Robust work effort
requirements if fraud
or suspected fraud is
identified

Enhancing AUDIT DOCUMENTATION requirements

Key Deliberations and Decisions Since June 2023

Introduction

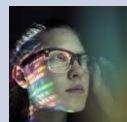


Clarifying what is meant by fraud or suspected fraud “identified by the auditor”



Including introductory material indicating that fraud constitutes an instance of non-compliance with laws and regulations

Professional Skepticism



Deleting para. A24 on the basis that the auditor should approach the audit with a ‘fresh pair of eyes’



Proposing a consequential amendment to ISA 200 related to the authenticity of records and documents

Risk Identification and Assessment



Further aligning with other ISAs (e.g., ISA 315 (Revised 2019) and ISA 540 (Revised)) and removing repetition, where possible



Adding a new requirement to obtain an understanding of ‘other controls’ that prevent or detect fraud

Key Deliberations and Decisions Since June 2023

Fraud or Suspected Fraud



Adding a requirement to determine whether to design and perform (additional) further audit procedures in accordance with ISA 330



Emphasizing the importance of inquiring of management and TCWG about the fraud or suspected fraud and their process to investigate the matter



Proposing a consequential amendment to ISA 450, requiring the auditor to determine whether a misstatement is indicative of fraud

Ongoing Communication with Management and TCWG



Reaffirming the placement of overarching communication requirement to reinforce that such communications are ongoing and take place throughout the audit engagement

Implications for the Auditor's Report



Reaffirming the direction of requiring the auditor to apply a fraud lens to the 'filtering mechanism' used in ISA 701

Audit Documentation



Reaffirming the direction to expand on the documentation requirements in ISA 230 as well as ISA 315 (Revised 2019) and ISA 330

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A**

Subheading	Requirement	Application Material
Introduction	Paras. 1–15	Paras. A1–A16
Objectives	Para. 16	–
Definitions	Para. 17	Paras. A17–A22A

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	Application Material
Professional Skepticism	Paras. 18–20	Paras. A23–A30B
The Auditor Identifies Fraud or Suspected Fraud	Para. 21	–
Engagement Resources	Para. 22	Paras. A30C–A33
Engagement Performance	Paras. 23–24	Paras. A35–A38
Ongoing Nature of Communications with Management and Those Charged with Governance	Para. 25	Paras. A40–A44

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	Application Material
Risk Assessment Procedures and Related Activities	Paras. 26–29C	Paras. A45–A52E
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control	–	–
<i>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework</i>	Para. 30	Paras. A54–A62

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	Application Material
<i>Understanding the Components of the Entity's System of Internal Control</i>	Paras. 31–35	Paras. A63–A94B
<i>Control Deficiencies Within the Entity's System of Internal Control</i>	Para. 36	Paras. A95–A95A
Identifying and Assessing the Risks of Material Misstatement due to Fraud	Paras. 40–42	Paras. A101–A112

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	AM
Responses to the Assessed Risks of Material Misstatement Due to Fraud	–	–
<i>Designing and Performing Audit Procedures in a Manner That Is Not Biased</i>	Para. 43	–
<i>Unpredictability in the Selection of Audit Procedures</i>	Para. 44	Paras. A113–A115
<i>Overall Responses</i>	Paras. 45–46	Para. A116
<i>Audit Procedures Responsive to the Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level</i>	Para. 47	Paras. A117–A125
<i>Audit Procedures Responsive to Risks Related to Management Override of Controls</i>	Paras. 48–53	Paras. A126–A146

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	Application Material
Fraud or Suspected Fraud	Paras. 54–63	Paras. A148–A161
Evaluation of the Sufficiency and Appropriateness of Audit Evidence	Para. 64	Paras. A162–A166
Auditor Unable to Continue the Audit Engagement	Para. 65	Paras. A167–A170

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	Application Material
Written Representations	Para. 70	Paras. A188–A189
Communications with Management and Those Charged with Governance	Paras. 71–73	Paras. A190–A195
Reporting to an Appropriate Authority Outside the Entity	Para. 74	Paras. A196–A200
Documentation	Para. 75	Para. A201

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Requirement	Application Material
Implications for the Auditor's Report	Paras. 66–69	Paras. A171–A187A

Matters for the IAASB Consideration

1. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–A** (continued)

Subheading	Appendix
Appendices	–
<i>Examples of Fraud Risk Factors</i>	Appendix 1
<i>Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud</i>	Appendix 2
<i>Examples of Circumstances that May Be Indicative of Fraud</i>	Appendix 3
<i>Additional Considerations that May Be Used by the Auditor When Selecting Journal Entries and Other Adjustments for Testing</i>	Appendix 4
<i>Other ISAs Addressing Specific Topics that Reference Fraud or Suspected Fraud</i>	Appendix 5

Matters for the IAASB Consideration

2. The Board is requested to provide its views as to whether there are any other matters the Fraud TF should consider in order to promote consistent practice and change auditor behavior when performing work related to fraud in an audit of financial statements

Matters for the IAASB Consideration

3. The Board is requested to provide its views regarding the Fraud TF's proposed changes as outlined in **Agenda Item 3–C**

Subheading	Requirement	Application Material
Conforming and consequential amendments, including:	–	–
<i>Consequential amendment to ISA 200</i>	–	Para. A24
<i>Consequential amendment to ISA 250 (Revised)</i>	–	Para. A6
<i>Consequential amendment to ISA 450</i>	Para. 5A	Para. A6A
<i>Consequential amendment to ISA 505</i>	Para. 3	Para. A21
<i>Consequential amendment to ISA 700 (Revised)</i>	Paras. 40(a) and 40(c)	Appendix
<i>Consequential amendment to ISA 701</i>	Paras. 11 and 16	Paras. A8A, A18A, A21, A55, A58 and A58B
<i>Consequential amendment to ISA 800 (Revised)</i>	–	Appendix

Matters for the IAASB Consideration

4. The Board is requested to provide its views as to whether there are any key matters, other than those noted in **Section III** of **Agenda Item 3**, that should be addressed in the Explanatory Memorandum

Way Forward

Progress proposed ISA 240 (Revised) based on feedback received

Ongoing collaboration with IESBA, engagement with task forces, working groups and consultation groups
Stakeholder outreach

October – December 2023

December 2023

Expected approval by the IAASB of the Exposure Draft

Follow Us



[@IAASB_News](https://twitter.com/IAASB_News)



[@International Auditing and Assurance Standards Board](https://www.linkedin.com/company/iaasb)



[@International Auditing & Assurance Standards Board](https://www.youtube.com/channel/UCvK1j8v8v8v8v8v8v8v8v8v8)

[Register & Subscribe for updates: www.iaasb.org](http://www.iaasb.org)



We are on a break

The logo consists of the letters "IAASB" in a white, serif font, centered within a solid blue rectangular background.

**International Auditing
and Assurance
Standards Board®**



[@IAASB_News](https://twitter.com/IAASB_News)



[@International Auditing and Assurance Standards Board](https://www.linkedin.com/company/International-Auditing-and-Assurance-Standards-Board)



Subscribe to our YouTube
Channel

