

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: New York, USA

Meeting Date: December 7, 2023

Agenda Item C.3

Fraud in an Audit of Financial Statements – Cover and Report Back

Objective of Agenda Item

1. The objective of this Agenda Item is to report back on Representatives' comments made at the September 2023 IAASB CAG meeting.

Project Status

2. Since the September 2023 IAASB CAG meeting, the Fraud Task Force (Fraud TF) presented and discussed an updated full draft of proposed ISA 240 (Revised)¹ with the Board at the [September 2023 IAASB meeting](#). In October and November 2023, the Fraud TF met to further refine its thinking on all topics previously discussed with and raised by the Board during the September 2023 meeting.
3. In December 2023, the Fraud TF will bring to the Board an exposure draft of proposed ISA 240 (Revised) for approval.

Report Back

4. Extracts from the draft September 2023 IAASB CAG meeting minutes relevant to fraud, as well as an indication of how the Fraud TF or the IAASB have responded to the Representatives' comments, are included below.

| Report Back on the September 2023 IAASB CAG Meeting | |
|---|--|
| Representatives' Comments | Task Force / IAASB Response |
| IDENTIFYING AND ASSESSING RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD | |
| Ms. Riggs highlighted the importance of applying the 'fraud lens' throughout the audit, including the risk identification and assessment. | <p>Point noted.</p> <p>Ms. Corden explained that ISA 315 (Revised 2019)² emphasizes that the auditor's risk identification and assessment process is iterative and dynamic. Hence, proposed ISA 240 (Revised) requires the auditor to perform additional risk assessment procedures to provide an appropriate basis for the</p> |

¹ Proposed International Standard on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

| Report Back on the September 2023 IAASB CAG Meeting | |
|---|--|
| Representatives' Comments | Task Force / IAASB Response |
| | identification and assessment of the risks of material misstatement due to fraud. |
| FRAUD OR SUSPECTED FRAUD | |
| If fraud or suspected fraud is identified, Mmes. Landell-Mills and Blomme highlighted the risk of tipping off management that may be involved in the matter. Therefore, they suggested that it may be helpful to clarify the need to communicate with TCWG (e.g., the audit committee) first. | <p>Point noted.</p> <p>Ms. Corden explained that in the development of proposed ISA 240 (Revised) the Fraud TF took into account entities of different sizes, or with different ownership and governance characteristics or circumstances. She noted that proposed ISA 240 (Revised) requires the auditor to make inquiries about the matter (i.e., fraud or suspected fraud) and the process to investigate the matter with an appropriate level of management that is at least one level above those involved, and TCWG.</p> |
| In determining whether identified misstatements due to fraud are material, Ms. Landell-Mills noted that the auditor should make explicit considerations of the ramifications of the fraud, including the risk of regulatory action, risk of litigation and reputational consequences. | <p>Point noted.</p> <p>Ms. Corden noted that proposed ISA 240 (Revised) requires the auditor to determine whether identified misstatements due to fraud are material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement.</p> |
| TRANSPARENCY IN THE AUDITOR'S REPORT ON FRAUD | |
| Dr. Norberg, Mr. Fritz and Ms. Blomme suggested considering the implications (e.g., risk of legal liability) arising from including a statement to the effect that there are no KAMs related to fraud to communicate in the KAMs section of the auditor's report. | <p>Point noted.</p> <p>Ms. Corden noted that proposed ISA 240 (Revised) expands on the requirement in ISA 701³ dealing with circumstances when there are no KAMs to communicate in the auditor's report. This is intended to cause the auditor to 'pause' if in fact there are truly no KAMs related to fraud to communicate in the auditor's report.</p> |
| Ms. Blomme also suggested considering the implications of communicating KAMs related to fraud that have not been disclosed by the entity in | <p>Point noted.</p> <p>Ms. Corden explained that KAMs related to fraud that are communicated in the auditor's report are the</p> |

³ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

| Report Back on the September 2023 IAASB CAG Meeting | |
|---|--|
| Representatives' Comments | Task Force / IAASB Response |
| the financial statements. | outcome of applying the 'filtering mechanism' in ISA 701. She further noted that non-disclosure by the entity of matters related to fraud in the financial statements does not preclude the auditor from communicating KAMs related to fraud in the auditor's report. |
| OTHER MATTERS | |
| Dr. Norberg encouraged the Fraud TF to consider scalability in finalizing the exposure draft of proposed ISA 240 (Revised). | Point noted. Ms. Corden noted that scalability is one of the qualitative characteristics that have been considered in developing proposed ISA 240 (Revised). |
| Mmes. Blomme and Riggs suggested to clarify whether the concept of materiality applies when obtaining audit evidence about the completeness of the population of all journal entries and other adjustments. | Point noted. Ms. Corden explained that the Board added this requirement to enhance the robustness and effectiveness of the audit procedures to test the appropriateness of journal entries and other adjustments. |
| Dr. Norberg suggested to consider the impact of the proposed changes on management's behavior and reporting with respect to matters related to fraud. | Point noted. Ms. Corden explained that proposed ISA 240 (Revised) focuses on promoting consistent practice and changing auditor behavior. She noted that reporting by the entity on matters related to fraud in the financial statements is outside the remit of the IAASB. |

Appendix

Project Details and History

Project: Fraud

Link to IAASB Project Page: [Fraud Project Page](#)

Task Force Members

- Julie Corden, IAASB Member and Task Force Chair
- William Edge, IAASB Member
- Josephine Jackson, IAASB Vice-Chair
- Sachiko Kai, IAASB Member
- Diane Larsen, IAASB Member

Summary

| | IAASB CAG Meeting | IAASB Meeting |
|-------------------------------|--|---|
| Information Gathering | September 2020 March 2021 September 2021 | August 2020 December 2020 April 2021 June 2021 July 2021 |
| Project Proposal | November 2021 | December 2021 |
| Development of Exposure Draft | March 2022 September 2022 March 2023 September 2023 | March 2022 June 2022 September 2022 December 2022 June 2023 September 2023 |

IAASB CAG Discussions: Detailed References

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| Information gathering | <u>September 2020</u> See IAASB CAG meeting material (Agenda Item F). <u>March 2021</u> See IAASB CAG meeting material (Agenda Item C). |
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| | <p><u>September 2021</u></p> <p>See IAASB CAG meeting material (Agenda Item I).</p> |
| Project Proposal | <p><u>November 2021</u></p> <p>See IAASB CAG meeting material (Agenda Item A).</p> |
| Development of Exposure Draft | <p><u>March 2022</u></p> <p>See IAASB CAG meeting material (Agenda Item H).</p> <p><u>September 2022</u></p> <p>See IAASB CAG meeting material (Agenda Item G).</p> <p><u>March 2023</u></p> <p>See IAASB CAG meeting material (Agenda Item D).</p> <p><u>September 2023</u></p> <p>See IAASB CAG meeting material (Agenda Item H).</p> |