

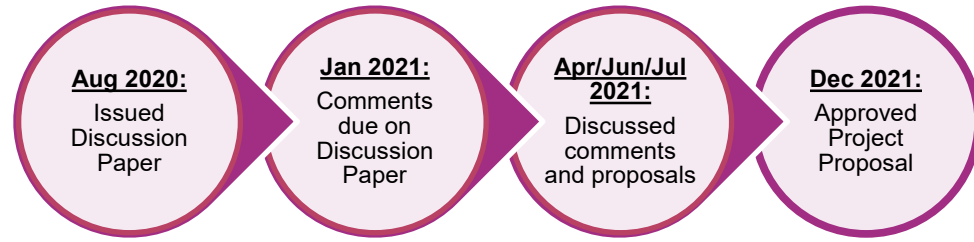


# IAASB Update: Fraud

Tania Sergott, ASB Task Force Chair

*October 25-26, 2022 ASB Meeting*

# IAASB Fraud Project Timeline



## March 2022 IAASB Mtg:

- Risk identification and assessment
- Communication with TCWG
- Transparency in the auditor's report
- Non-authoritative guidance

## June 2022 IAASB Mtg:

- Intro – auditor responsibility vs. inherent limitations
- Specialized / forensic skills
- Risk assessment – 315R integration
- Understanding the entity & its environment
- Presumed fraud risk – revenue recognition
- Journal entries
- Communication with TCWG

## September 2022 IAASB Mtg:

- Feedback from outreach on Transparency in the Auditor's Report
- Risk assessment – ISA 315R integration (revised from June version)



*Details of  
Sept 2022  
meeting on  
next slides*

## Items in Project Proposal not yet Discussed

- Definition of fraud
- Written representations
- Technology
- Analytical procedures
- Audit procedures for identified or suspected fraud
- Unpredictability of audit procedures
- Third-party fraud
- Audit documentation
- External confirmation
- Professional skepticism
- Stand-back requirement



**ASB will need to consider how best to move forward with an ASB project on fraud – to be considered after the Dec 2022 IAASB meeting materials become available**

# Fraud - September 2022 IAASB Meeting - Key Takeaways

Topic	Overview of Key Changes	Key Takeaways from Sept 2022 IAASB Mtg
<p><b>Section I</b></p> <p><b>Transparency in the Auditor's Report on Fraud</b></p>	<ul style="list-style-type: none"> <li>IAASB conducted 24 interviews and shared the results with the Board (par. 45 of IAASB agenda item 6)</li> </ul> <p>Takeaways from the IAASB outreach is that users of the financial statements:</p> <ul style="list-style-type: none"> <li>Value more transparency</li> <li>Recognize prevention and detection of fraud is primarily the responsibility of management and TCWG</li> <li>View insights about the system of I/C to prevent and detect fraud as an indicator of “what can go wrong”</li> <li>Noted that info in the report may assist in the assessment of the entity, including integrity of management and TCWG</li> <li>Trust and value the auditor’s independent perspectives</li> <li>Reiterate that the auditor “works” for the users</li> <li>Highlighted the importance of clarity in messaging</li> <li>Indicated the importance of, and benefits from, educational material</li> </ul>	<ul style="list-style-type: none"> <li>ASB shared results of our survey through a letter sent to the IAASB</li> <li>The preliminary results of our research are not entirely consistent with the results of the IAASB’s user outreach on auditor reporting relating to fraud</li> </ul>

# Fraud - September 2022 IAASB Meeting - Key Takeaways

Topic	Overview of Key Changes	Key Takeaways from Sept 2022 IAASB Meeting
<b>Section I</b>  <b>Transparency in the Auditor's Report on Fraud</b>	<p>Summary of IAASB proposals (par 65 of agenda item 6):</p> <ul style="list-style-type: none"> <li>Enhance transparency in the auditor's report by including a separate section on fraud that encompasses a description of: <ul style="list-style-type: none"> <li>(a) The auditor's responsibilities as it relates to fraud in the audit of the financial statements;</li> <li>(b) The identified and assessed fraud risks and the auditor's response to the assessed risks; and</li> <li>(c) Identified significant deficiencies in internal control that are relevant to the prevention and detection of fraud in the financial statements.</li> </ul> </li> <li>Task force did not recommend disclosure of the auditor's findings/observations</li> </ul>	<ul style="list-style-type: none"> <li><b>Overall IAASB was supportive of transparency</b> in the auditor's report relating to fraud – however there was disagreement on what additional information should be included (needs to be relevant)</li> <li>Some support for a separate section on fraud, however concerns were raised about highlighting fraud in reports when KAMs are not communicated (undue emphasis on fraud and not other issues)</li> <li>Some members expressed support for <b>using the KAM framework</b> for further communication about fraud – thereby limiting to listed entities</li> <li><b>Many members expressed concerns with (c)</b> because the audit is not designed to identified deficiencies in internal control, thus the user may place undue reliance on the completeness of deficiencies identified</li> <li>Concerns were raised about the auditor being the original source of information instead of management</li> <li><b>Questions were raised about whether private entities would have the same need for more information in the auditor's report</b></li> <li>Because there was a clear steer that users want more in the auditor's report about fraud – the IAASB was asked to think about how practical difficulties can be overcome to deliver more in the auditor's report</li> <li>TF will continue to work with developing reporting requirements for the December 2022 draft document</li> </ul>

TF views:

- Similar to views as those expressed at the IAASB meeting
- Concerns with including original information
- Recommend further outreach to find out results in other jurisdictions – often additional communications become boilerplate over time
- Additional information may increase the expectation gap
- Concerns about proposal to include SDs in the auditor's report

# Fraud - September 2022 IAASB Meeting - Key Takeaways

Topic	Overview of Key Changes	Key Takeaways from Sept 2022 IAASB Meeting
<b>Section II</b>  <b>Identifying and Assessing the Risks of Material Misstatement Due to Fraud (Connection to ISA 315)</b>	<ul style="list-style-type: none"> <li>The IAASB worked on better aligning ISA 240 with ISA 315 based upon feedback received at the June 2022 IAASB meeting               <ul style="list-style-type: none"> <li>June 2022 IAASB meeting - IAASB supported revisions to include recent changes in ISA 315 (R2019), however there were mixed views on how to accomplish this. The IAASB emphasized that the risk assessment procedures relating to fraud are intended to expand upon, and should not duplicate, what is already in ISA 315 (R2019) and cautioned against implying that there were two separate risk assessments.</li> </ul> </li> <li>IAASB used the phrase “In applying ISA 315 (Revised 2019)” when the auditor is required to do something in addition to the requirements in ISA 315</li> </ul>	<ul style="list-style-type: none"> <li>At the September 2022 IAASB meeting the IAASB felt that this section was much improved from June</li> <li>Wendy requested that the Dec 2022 materials show the changes from extant to capture fully what the proposed changes will be</li> </ul>
<b>NEXT STEPS</b>	<ul style="list-style-type: none"> <li><b>December 2022 IAASB Meeting</b> – Expected to bring a near full draft of the proposed revised ISA 240. TF will continue to discuss topics brought in March and June, and will advance its thinking on the remaining topics outlined in the project proposal (primarily focused on proposed actions to address specific fraud-related audit procedures)</li> <li><b>Expected September 2023</b> approval of ED</li> </ul>	

ASB TF views:

- Improvement from June 2022 version
- Supportive of fewer repetitive requirements
- Recommend lead-in be changed to better reflect these are in applying ISA 315 (R 2019)
- Highlight that the new requirements and application material need further focus and review as they were overshadowed by the structure changes
- Strongly recommend the Dec 2022 version be marked from extant ISA 240

# Fraud

## Upcoming ASB Task Force Activities

- Continue to provide feedback to the IAASB through IASTF/ASB meetings, and develop project proposal for possible ASB related project
- Continue to work with Greg Jenkins on Fraud outreach, and to understand the outcomes, to help inform both the IAASB and the ASB projects
- ASB Fraud TF meetings scheduled for the remainder of 2022:
  - November 28 (discuss Dec IAASB materials)
  - December 15 (prepare materials for Jan 2023 ASB meeting; discuss project proposal)

## What to Expect in 2023

- In 2023, the ASB will be asked to consider the scope and timing of a possible ASB fraud project to determine whether changes to GAAS are needed. If approved, the ASB will move toward voting an exposure draft for a revised AU-C section 240 shortly after the IAASB ED is finalized.
- TF meetings to be scheduled for beginning of January 2023 (TBD) to prepare for January ASB meeting. Additional TF meetings to be scheduled throughout 2023.