

## Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases

This Agenda Item sets out an overall analysis of the work of the Fraud Working Group (WG) to support the project proposal and summarizes all aspects of the work undertaken to develop the draft project proposal. This “Overall Analysis” was used to facilitate the Fraud WG’s discussions at its October and November 2021 meetings in revisiting the issues identified and determining whether the possible actions included in the draft scope of the project proposal are reflective of stakeholder views, Fraud WG deliberations and Board decisions or direction in light of the project objectives to achieve the public interest on fraud in an audit of financial statements.

This Overall Analysis summarizes the:

- **Issues/themes identified** related to fraud in an audit of financial statements from the information gathering and research activities to date. Source(s) of issues/themes identified include the Discussion Paper,<sup>1</sup> other matters raised to date (not included in the Discussion Paper), responses to the Discussion Paper, the roundtable discussions, a review of relevant academic research, and monitoring the current environment (e.g., developments in different jurisdictions).
- **Fraud WG recommendations** comprising the initial proposed possible actions from the Fraud WG to address the issues/ themes identified, which were presented to the Board for discussion at the April, June and July 2021 IAASB meetings.
- **Board decisions or direction, and comments** (as captured in the approved Board minutes of the relevant IAASB meetings) from the April, June and July 2021.
- **Draft scope of the project proposal** comprising proposed possible actions for standard setting, the development of non-authoritative guidance or other actions, which agree to/align with the proposed actions described in the project proposal.
- **Matters identified from the Additional Root Cause Analysis of Fraud Cases** as set out in **Agenda Item 3-C**.
- **Changes in the draft scope of the project proposal**, which highlights changes to the proposed possible actions on a topic from the Board discussions, including changes from the Fraud WG recommendations previously presented to the Board at the April, June and July 2021 IAASB meetings.

This analysis is intended to be a reference document for Board members. It is not intended that this Agenda Item is specifically discussed at the December 2021 IAASB meeting.

<sup>1</sup> Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*

Prepared by: Hankenson Jane Talatala and Beverley Bahlmann (November 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<b>Areas Where Further Action Is Recommended</b>					
<b>Project Objective 11(a):<sup>5</sup></b> Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.					
<i>Key Issue 18(a):<sup>6</sup> Concerns about the clarity of the role of the auditor on fraud in an audit of financial statements</i>					
<p>18(a)(i):<sup>7</sup> The introductory paragraphs in ISA 240 explaining the inherent limitations of an audit can be misleading and result in misunderstanding of the auditor's obligations.</p> <p><i>(Source(s): Discussion Paper)</i></p> <ul style="list-style-type: none"> <li>There is strong encouragement from Monitoring Group members (and a limited number of other stakeholders) to reconsider the language used in paragraphs 5 and 6 of ISA 240 (i.e., introductory</li> </ul>	<p>At the June 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Re-ordering the introductory paragraphs in ISA 240 so that the auditor's responsibilities are presented prior to those addressing the inherent limitations of an audit and exploring if there are enhancements that can be made to clarify the auditor's responsibilities in relation to fraud.</li> <li>Further exploring whether</li> </ul>	<p>At the June 2021 IAASB meeting, the Board specific comments and suggestions included:</p> <ul style="list-style-type: none"> <li>That the reordering of paragraphs and enhancing application material would not be sufficient to set the right tone on this important issue, and the proposal was seen by several Board members to be 'cosmetic' or insufficiently responsive. However, mixed views were expressed by various Board members about</li> </ul>	<p><b>(1) Introductory paragraphs in ISA 240 – Emphasis on the Auditor's Responsibilities</b></p> <p><i>Enhance and clarify the introductory paragraphs in ISA 240 to emphasize the auditor's responsibilities regarding fraud, including:</i></p> <ul style="list-style-type: none"> <li>Emphasizing the auditor's responsibilities by placing them prior to the description of inherent limitations of an audit.</li> <li>Considering whether to explain responsibilities of others in the financial reporting ecosystem</li> </ul>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute the introductory paragraphs in ISA 240 as a root cause of issues related to fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Prioritized the emphasis and clarification on the auditor's responsibilities over the reordering of the introductory paragraphs in ISA 240.</li> <li>Enhanced the need to emphasize the auditor's responsibilities upfront in the standard rather than making changes in application material.</li> <li>Relocated the possible action on educational efforts to "other actions" regarding activities</li> </ul>

<sup>2</sup> The project objectives, key issues and identified issues and challenges within each theme / "key issue" (including its related numbering) presented herein agree to/align with those presented in **Sections III and V of Agenda Item 3-A**.

<sup>3</sup> The proposed actions (including its related numbering) presented herein agree to/align with those presented in **Section VI of Agenda Item 3-A**.

<sup>4</sup> Where different jurisdictions have made changes to their fraud standard, a proposed action to consider the changes made as part of the development of the relevant revisions has been included – for those proposed action where this may be relevant.

<sup>5</sup> The project objectives (including its related numbering) presented herein agree to/align with those presented in **Section III of Agenda Item 3-A**.

<sup>6</sup> The key issues (including its related numbering) presented herein agree to/align with those presented in **Section V of Agenda Item 3-A**.

<sup>7</sup> The identified issues and challenges within each theme / "key issue" (including its related numbering) presented herein agree to/align with those presented in **Section V of Agenda Item 3-A**.

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IAASB Main Agenda (December 2021)

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<p>paragraphs) to clarify the risks of the inherent limitations of an audit in relation to the auditor's responsibilities.</p>	<p>standard-setting is needed to enhance the application material in ISA 200<sup>8</sup> about fraud-related inherent limitations in an audit.</p> <ul style="list-style-type: none"> <li>Educational efforts to help inform financial statement users and others about the role and responsibilities of the auditor on fraud in a financial statement audit.</li> </ul>	<p>what may be needed; on one hand, a few Board members suggested changes and enhancements to the text of the introductory paragraphs to emphasize the auditor's role notwithstanding the inherent limitations, while on the other hand, some were cautious to imply that inherent limitations are less than currently described.</p> <p>After further deliberation, the Fraud WG was encouraged to further consider:</p> <ul style="list-style-type: none"> <li>Making changes to the text of the introductory paragraphs to reduce the ambiguity around the inherent limitations of an audit. There was support for further considering the changes made in this area by the United Kingdom in their equivalent of ISA 240.</li> <li>How the responsibilities of the auditor could be better</li> </ul>	<p>within the introductory paragraphs.</p> <ul style="list-style-type: none"> <li>Considering changes and enhancements made by others in different jurisdictions in their equivalent of ISA 240 to reduce the ambiguity between the inherent limitations of an audit and the auditor's responsibilities for fraud in an audit of financial statements.</li> </ul>		<p>that are educational in nature (i.e., initiatives of an educational nature or other outreach where within the remit of the IAASB).</p>

<sup>8</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

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 IAASB Main Agenda (December 2021)

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		<p>emphasized and, in an appropriately balanced manner, clarify the respective responsibilities of others in relation to fraud. Other Board members, however, had the view that the auditor's responsibilities were clear in the ISAs and that this would not necessarily address the issues identified in relation to the inherent limitations of an audit. Caution was also expressed about focusing on what may not be within the Board's remit, with encouragement to focus on the standard-setting changes that would support enhanced audit quality.</p> <ul style="list-style-type: none"> <li>When revising the standard that any changes should not imply that the limitations in an audit are less than what is currently conveyed, as the limitations are inherent in nature and will not cease to exist.</li> </ul>			

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 IAASB Main Agenda (December 2021)

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		<ul style="list-style-type: none"> <li>• Monitoring what other jurisdictions have done to make enhancements in this area and consideration of those enhancements in informing the Board's actions. It was also highlighted that developments in the environment around the world should also be considered when developing revisions in this area.</li> <li>• How 'education' can be used, possibly in collaboration with others, to help users of financial statements and others better understand the inherent limitations of an audit.</li> </ul> <p>The Fraud WG agreed to reconsider the proposals in this area.</p> <p>At the conclusion, one Board member continued to express reservations about the adequacy of the Fraud WG's original path forward and warned the IAASB on its messaging to the marketplace concerning the inherent limitations of an audit with respect to</p>			

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		fraud.			
<p>18(a)(ii): The auditor's responsibilities on fraud in an audit of financial statements has been questioned, as well as whether the definition of fraud remains appropriate.</p> <p>18(a)(iii): There are terms and concepts associated with fraud, such as bribery and corruption, that are not directly addressed in the definition of fraud, and it has been noted that it is therefore unclear whether the auditor's procedures extend to include work related to such terms and concepts.</p> <p><i>(Source(s): Discussion Paper)</i></p> <ul style="list-style-type: none"> <li>The IAASB has a definition of fraud for the purpose of the auditor's work on the financial statements, but there are other terms or concepts associated with fraud that are not directly addressed in the standard, such as bribery and corruption, which may result in different expectations about what the auditor is considering when undertaking procedures on</li> </ul>	<p>At the June 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Not expanding the definition of fraud to include other concepts such as bribery or corruption (or any other fraud related concepts).</li> <li>Option 1: Enhancing the application material to clarify how other concepts often associated with fraud (including bribery and corruption) interact with the concept of fraud for purposes of a financial statement audit.</li> <li>Option 2: Issuing non-authoritative guidance to clarify how other concepts often associated with fraud (including bribery and corruption) interact with the concept of fraud for purposes of a financial statement audit.</li> <li>Efforts by the IAASB to help educate others in the financial reporting ecosystem about the</li> </ul>	<p>At the June 2021 IAASB meeting, the Board specific comments and suggestions included that:</p> <ul style="list-style-type: none"> <li>The definition of fraud should not be expanded (so as to address the responsibilities of the auditor). However, it was noted that the Board should clarify the definition, possibly through application material or non-authoritative guidance to illustrate how concepts like bribery and corruption are interlinked with fraud for purposes of an audit of financial statements. This may include the consideration of one or both of the options presented to the Board.</li> <li>There was a suggestion that the definition be reconsidered to include bribery and corruption, further clarified by the statement that as long as it was clear how the concepts were interlinked to fraud it may not be necessary to change the</li> </ul>	<p><b>(2) Application Material – Definition of Fraud</b></p> <p><i>Enhance application material to clarify how concepts such as bribery and corruption relate to the definition of fraud for purposes of an audit of financial statements.</i></p>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings noted that the basic underlying nature and types of frauds have not changed significantly from what extant ISA 240 describes. This reinforces the view that no further changes to the definition of fraud are needed. See the "Nature of Fraud" section in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Opted to enhance application material (Option 1) over issuing non-authoritative guidance (Option 2) on the definition of fraud.</li> <li>Relocated the possible action on educational efforts to "other actions" regarding activities that are educational in nature (i.e., initiatives of an educational nature or other outreach where within the remit of the IAASB).</li> </ul>

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fraud.	responsibilities of the auditor for fraud in a financial statement audit (including what the definition of fraud encompasses).	definition.			
<p>18(a)(iv): The increasing use of forensic procedures on audits, including by forensic specialists has led to questions about whether the auditor should be undertaking more forensic type procedures or forensic specialists should be required on all, or some, audits.</p> <p><i>(Source(s): Discussion Paper; Roundtable Discussions<sup>9</sup>)</i></p> <p>Stakeholders had mixed views on whether to require auditors to use forensic specialists in financial statement audits:</p> <ul style="list-style-type: none"> <li>Require the use of forensic specialists in some circumstances (e.g., if a possible fraud has been identified).</li> <li>Require the use of forensic</li> </ul>	<p>At the June 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Requiring the auditor to consider the use of forensic specialists when there is identified or suspected fraud (i.e., assist the auditor to investigate the circumstances).</li> <li>Exploring the role of forensic specialists to assist with risk assessment procedures, including in the engagement team discussion, to determine whether changes to the standard are appropriate.</li> <li>Considering scalability in exploring possible requirements above.</li> <li>Undertaking work to describe the concept of a “forensic</li> </ul>	<p>At the June 2021 IAASB meeting, Board comments included:</p> <ul style="list-style-type: none"> <li>Encouragement by a Board member for the Fraud WG to consider proposals that would raise the bar in this area.</li> <li>Regarding paragraph 45 of the Issues Paper, possible clarification and requirements for the auditor’s considerations about when the use of forensic specialists may be appropriate, but being mindful of scalability when developing such enhancements, with a Board member encouraging the Fraud WG to give greater consideration to responses on the Discussion Paper that were supportive of the IAASB doing</li> </ul>	<p><b>(3) Requirements and Application Material – Specialized Skills</b></p> <p><i>Consider requirements and application material in ISA 240 on the need for specialized skills (including forensic skills), including:</i></p> <ul style="list-style-type: none"> <li>A new requirement and enhanced application material for those circumstances when it is appropriate for the auditor to “consider the need for specialized skills, including forensic skills” to assist with audit procedures, such as: <ul style="list-style-type: none"> <li>When performing risk identification and assessment, including the engagement team discussion. In doing so, consider how this links</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute the lack of forensic specialist involvement as a root cause of issues related to fraud. However, participants noted that audits of areas susceptible to fraud (e.g., revenue, cash, goodwill, etc.) should involve people on the engagement team that have the right level of experience and expertise, including specialists where they are necessary. See the section “What Auditors Can Do Better” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Changed the focus of the possible actions relating to this topic from “forensic specialists” to “specialized skills” (including forensic skills) more broadly.</li> <li>To strengthen the standard, included considering adding a requirement for those circumstances when it is appropriate for the auditor to “consider the need for specialized skills, including forensic skills” to assist with audit procedures, such as when performing risk identification and assessment, including the engagement team discussion, or when fraud is identified or suspected.</li> <li>Added considering “changes</li> </ul>

<sup>9</sup> The Roundtables, [Summary of Key Take-aways: IAASB Fraud and Going Concern Roundtables](#)

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IAASB Main Agenda (December 2021)

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<p>specialists for certain types of audits or in certain areas of the audit (based on the nature and characteristics of the entity such as listed entities).</p> <ul style="list-style-type: none"> <li>Not require the use of forensic specialists and leave to the auditors' judgment about whether to involve a specialist, forensic or other.</li> </ul>	<p>specialist" to clarify who may qualify as a forensic specialist, bearing in mind that the term may need to be re-titled.</p> <ul style="list-style-type: none"> <li>Application material that provides clarity around the types of circumstances when it may be appropriate to consider the use of forensic specialists in complying with paragraph 30(a) of extant ISA 240.</li> <li>Continued dialogue with others in the financial reporting ecosystem to foster further consideration about how such training could be encouraged (e.g., through IFAC's International Panel on Accountancy Education (IPAE)).</li> </ul>	<p>work in this area.</p> <ul style="list-style-type: none"> <li>Support for defining what is meant by "forensic specialist," while also taking into account how any terms used may be translated.</li> <li>Consideration of exploring trigger events where specialists should be considered for assistance in the risk assessment process.</li> <li>Consideration of how forensic specialists could be used in a 'coaching' role for auditors when appropriate.</li> <li>Support for making a connection between enhancements related to forensic specialists with paragraphs 25-28 in ISA 220 (Revised)<sup>10</sup> related to engagement resources.</li> <li>Further consideration of whether forensic specialists</li> </ul>	<p>to the revised requirements in ISA 220 (Revised)<sup>11</sup> for adequate resources for the engagement.</p> <ul style="list-style-type: none"> <li>When there is identified or suspected fraud.</li> <li>How scalability can be encompassed when exploring any new requirements.</li> <li>Undertaking work to describe "forensic skills," to clarify what may qualify as forensic skills, and taking into account that the term may need to be described in a different way.</li> <li>Changes made by others in different jurisdictions relating to the use of specialized skills.</li> </ul>	<ul style="list-style-type: none"> <li>In addition, as described in the analysis, forensic investigations were often launched by management once the fraud or suspected fraud was identified in the specific cases considered. This matter is an area where respondents to the Discussion Paper had mixed views on whether enhancements are needed.</li> </ul>	<p>made by others in different jurisdictions."</p> <ul style="list-style-type: none"> <li>Relocated the possible action for continued dialogue with others (e.g., IFAC's IPAE) to "other actions" regarding engagement with others (i.e., continued dialogue and engagement with others on issues that relate to actions that are not solely within the IAASB's remit and require efforts from others in the financial reporting ecosystem).</li> </ul>

<sup>10</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>11</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

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		should be required for higher-risk entities.			
<b>Project Objective 11(b):</b> Enhance and clarify ISA 240 to establish more robust audit procedures that will promote consistent behaviors and facilitate effective responses to identified risks.					
<i>Key Issue 18(b): Questions around the robustness of identifying and assessing risks of material misstatement due to fraud</i>					
<p>18(b)(i): Questions have been raised whether the auditor’s risk identification and assessment process as it relates to fraud, could or should be more robust (including that many aspects of the robustness of the risk identification and assessment procedures in ISA 315 (Revised 2019)<sup>12</sup> have not been reflected in ISA 240).</p> <p><i>(Source(s): Discussion Paper; Responses to the Discussion Paper, Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>Stakeholders called for emphasis and clarity of how recent changes to ISA 315 (Revised 2019) apply in the context of fraud risk identification and assessment procedures.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Enhancing the risk assessment process in ISA 240 to make the auditor’s procedures more robust when identifying and assessing the risks of material misstatement due to fraud.</li> <li>Clarifying that risk assessment procedures in ISA 240 are not separate from those in ISA 315 (Revised 2019).</li> <li>Strengthening the link between ISA 240 and the acceptance and continuance process.</li> <li>Describing the auditor’s specific considerations relating to fraud when obtaining an understanding of the entity and</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported strengthening the auditor’s consideration of fraud when identifying and assessing the risks of material misstatement.</li> <li>There was support for the auditor to focus on specific control activities that management had designed and implemented to prevent and detect fraud, as well as strengthening the auditor’s considerations around tone at the top and corporate culture.</li> <li>There was also support for possible changes within the ISA 240 for the auditor to focus on fraud risk factors specific to</li> </ul>	<p><b>(4) Requirements and Application Material – Risk Identification and Assessment</b></p> <p><i>Enhance and clarify requirements and application material in ISA 240 to incorporate recent changes in ISA 315 (Revised 2019) to make fraud risk identification and assessment more robust, including:</i></p> <ul style="list-style-type: none"> <li>Having explicit fraud considerations in risk assessment procedures (e.g., requiring corroborative evidence for inquiries related to fraud).</li> <li>Clarifying that risk assessment procedures in ISA 240 are not separate from those in ISA 315 (Revised 2019).</li> </ul>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings highlighted auditors need to have a good understanding of the business model, corporate culture, and management’s motivations (including compensation/bonus structure) so they are more sensitized to potential indications of fraud. Participants noted it is important for auditors to obtain a thorough understanding of management’s internal controls, including the design and operating effectiveness of the controls. Participants also noted the importance of emphasizing auditor independence. See the section</li> </ul>	<ul style="list-style-type: none"> <li>Added more specificity around what procedures need to be enhanced to address identified issues and challenges.</li> <li>Added developing non-authoritative guidance on KPIs and inquiries of management and others within the entity.</li> </ul>

<sup>12</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

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IAASB Main Agenda (December 2021)

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<ul style="list-style-type: none"> <li>Key performance indicators (KPIs) (e.g., revenue, gross profit margin, net profit margin, current ratio, etc.), which measure an entity's output against a set of targets, objectives, or industry peers, may indicate unexpected or inconsistent performance compared with historical or budgeted performance or with other known factors. Stakeholders noted it would be helpful if guidance was provided on how KPIs can be used when performing fraud procedures.</li> <li>Stakeholders noted it would be helpful if guidance was provided to assist with implementation, including fraud inquiries and how these are best tailored, to help the efficacy of the engagement team discussions and the use of internal and external information and analytics.</li> </ul>	<p>its environment, the applicable financial reporting framework and the entity's system of internal control in accordance with ISA 315 (Revised 2019), with an emphasis on, for example:</p> <ul style="list-style-type: none"> <li>The entity's corporate culture.</li> <li>Entity's KPIs.</li> <li>Employee performance measures and incentive compensation policies.</li> <li>The entity's risk assessment process.</li> <li>Specific control activities to prevent and detect fraud.</li> </ul> <ul style="list-style-type: none"> <li>Updating the fraud risk factors currently included in the Appendix of ISA 240 and considering whether the fraud risk factors should rather be included in the application material.</li> </ul>	<p>the entity and its circumstances.</p> <ul style="list-style-type: none"> <li>The Board supported further exploring what non-authoritative materials may be needed during the course of the project, as well as after changes have been made to ISA 240, as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the link between ISA 240 and the acceptance and continuance process.</li> <li>Describing the auditor's specific considerations relating to fraud when obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control in accordance with ISA 315 (Revised 2019), with an emphasis on, for example: <ul style="list-style-type: none"> <li>The entity's corporate culture.</li> <li>Entity's key performance indicators (KPIs).</li> <li>Employee performance measures and incentive compensation policies.</li> <li>The entity's risk assessment process.</li> <li>Specific control</li> </ul> </li> </ul>	<p>"What Auditors Can Do Better" in the <i>Additional Root Cause Analysis of Fraud Cases</i>. Also see the section "How Frauds Are Detected, and By Who" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</p> <ul style="list-style-type: none"> <li>In addition, participants noted that in most large, material financial reporting fraud cases, executives or company management are the key players. More junior staff may also be involved if they are doing what they are told as directed by company management. This reinforces possible actions emphasizing on the entity's corporate culture, the entity's KPIs, the employee performance measures and incentive compensation policies. See the section "Who Is Involved" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> <li>Based on the feedback obtained as part of this root</li> </ul>	

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	<ul style="list-style-type: none"> <li>• Fraud considerations when identifying and assessing the risks of material misstatement due to fraud, with emphasis on how fraud risk factors influence the identified risks of material misstatement due to fraud at the assertion level, and therefore in designing a more precise response to such a fraud risk.</li> <li>• Considering examples to illustrate the scalability of the requirements, for example by providing examples that are more relevant to less complex entities (LCEs).</li> <li>• Further exploration of what non-authoritative materials is needed during the course of the project, as well as after changes have been made, as appropriate. The form and timing of any non-authoritative materials also needs to be considered.</li> </ul>		<ul style="list-style-type: none"> <li>activities to prevent and detect fraud.</li> <li>○ Other information known to the auditor, for example, from performing procedures under ISA 720 (Revised)<sup>13</sup> or the auditor's knowledge obtained throughout the audit.</li> <li>• Updating the fraud risk factors currently included in the Appendix to ISA 240 and considering whether the fraud risk factors should rather be included in application material.</li> <li>• Emphasizing in ISA 240 how fraud risk factors influence the identified risks of material misstatement due to fraud at the assertion level, and therefore in designing a more precise response to such a fraud risk.</li> <li>• Considering examples in ISA</li> </ul>	<p>cause exercise, the Fraud WG will consider the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Principle 8 when exploring the possible enhancements listed in the draft scope of the project proposal (which is a principle in the risk assessment component of COSO, centred on how the organization considers the potential for fraud in assessing risks to the achievements of objectives).</p>	

<sup>13</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
 IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
			<p>240 to illustrate the scalability of the requirements, for example by providing examples that are more relevant to less complex entities (LCEs).</p> <p><b>(6) Development of Non-Authoritative Guidance</b></p> <p><b>Key Performance Indicators</b></p> <p><i>Develop non-authoritative guidance around how auditors can use common KPIs measuring an entity's success and compare them to common targets and objectives or industry peers to better inform auditors when performing procedures, such as fraud risk assessment procedures and journal entry testing.</i></p> <p><b>Inquiries of Management and Others Within the Entity Tailored for Fraud Considerations</b></p> <p><i>Develop non-authoritative guidance on inquiries of management and others within the entity tailored for fraud considerations to help auditors ask the right questions, which will better inform</i></p>		

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

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			<p><i>auditors when performing procedures, such as the engagement team discussion and analytical procedures.</i></p>		
<p>18(b)(ii): Questions have been raised whether the engagement team discussion is robust enough for the auditor’s considerations of fraud throughout the audit.</p> <p><i>(Source(s): Discussion Paper; Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>• Questions have been raised whether to enhance the requirements for the engagement team discussion, the timing and frequency of the discussion, and the attendance of relevant specialists during the discussion, which was noted may be helpful in identifying and assessing risks of material misstatement due to fraud and responding appropriately to fraud risks, fraud or suspected fraud identified during the audit.</li> </ul>	<p>At the July 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>• Requiring specific topics to be included during the engagement team discussion, while also considering scalability.</li> <li>• Developing application material in ISA 240 on considerations when it may be beneficial to hold further engagement team discussion(s).</li> <li>• Developing application material in ISA 240 on considerations when it may be beneficial for specialists (including internal or external fraud specialists) already engaged in the audit to attend engagement team discussion(s).</li> </ul>	<p>At the July IAASB meeting, although the Board broadly supported the proposals in this area, the Board encouraged the Fraud WG to:</p> <ul style="list-style-type: none"> <li>• Further explore how an explicit consideration by the audit engagement team for a further engagement team discussion(s) could be incorporated into the standard, either through requirements or application material. Some Board members cautioned about the need to keep any new requirements scalable (i.e., a determination that is suitable to the nature and circumstances of the engagement).</li> <li>• Consider whether additional topics for discussion should be required as part of the engagement team discussion. The Fraud WG was encouraged to further explore</li> </ul>	<p><b>(5) Requirements and Application Material – Engagement Team Discussion</b></p> <p><i>Enhance requirements and application material in ISA 240 to make the engagement team discussion on fraud considerations more robust, including</i></p> <ul style="list-style-type: none"> <li>• Enhancing requirements to require specific topics to be included during the engagement team discussion, while also considering scalability.</li> <li>• Enhancing application material in ISA 240 to explain when it may be beneficial to hold further engagement team discussion(s).</li> <li>• Enhancing application material in ISA 240 for when it may be beneficial for specialists (including internal or external fraud specialists) already engaged in the audit to attend</li> </ul>	<ul style="list-style-type: none"> <li>• Participants in the root cause analysis outreach meetings noted that auditors should have a robust engagement team discussion around fraud that is more than just a perfunctory exercise and should not be perceived as a single event (but as a continuous consideration throughout the audit). See the section “What Auditors Can Do Better” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced the proposed actions to make the auditor’s considerations more robust.</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
 IAASB Main Agenda (December 2021)

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		<p>research that had been done in this area.</p> <ul style="list-style-type: none"> <li>Further explore how appropriate revisions for involving specialists in the engagement team can be made. A Board member cautioned that it was not only involving the specialists in the engagement team discussion that was important but emphasized the need to explore how changes could be made to explain how those specialists are involved. It was added that any possible requirements should be robust and not merely capture existing practice in this area.</li> <li>Monitor and understand standard-setting actions taken in local jurisdictions related to this matter, including understanding how any changes made have been implemented and whether they are effective.</li> </ul>	<p>engagement team discussion(s).</p>		

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<i>Key Issue 18(c): Questions around the adequacy of responses to the assessed risks of material misstatement due to fraud</i>					
<p>18(c)(i): Questions have been raised whether the auditor’s responses to the assessed risks of material misstatement, including due to fraud, could or should be more robust.</p> <p><i>(Source(s): Other matters raised to date (not included in the Discussion Paper))</i></p> <ul style="list-style-type: none"> <li>In addition to ISA 315 (Revised 2019) and ISA 250 (Revised), respectively, stakeholders commented it would be beneficial to understand how other ISAs relate with the procedures in ISA 240 and how the ISAs should be applied as one integrated set of standards.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Requiring a more specific link between the assessed risks of material misstatement and the responses to those risks in accordance with ISA 330.</li> <li>Enhancing the requirements for specific written representations relating to fraud.</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported enhancing the linkages in ISA 240 to other ISAs where the relationship between ISA 240 and the relevant other standard was not clear.</li> </ul>	<p><b>(7) Requirements and Application Material – Responses to the Assessed Risks of Material Misstatement</b></p> <p><i>Enhance the requirements and application material in ISA 240 to strengthen the auditor’s responses to assessed risks of material misstatement due to fraud, as necessary in light of the proposed actions addressing fraud risk identification and assessment and other fraud-related procedures, including:</i></p> <ul style="list-style-type: none"> <li>Considering a stand-back requirement in ISA 240 to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud.</li> <li>Enhancing application material in ISA 240 to encourage</li> </ul>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Added more specificity to the proposed actions.</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

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			<p>emphasis on management bias when considering the appropriateness of accounting estimates for fraud, and strengthening the link to the procedures required in ISA 540 (Revised).<sup>14</sup></p> <p><b>(8) Requirements and Application Material – Written Representations from Management</b></p> <p><i>Consider the need to enhance written representations from management by extending the existing written representations on fraud in ISA 240.</i></p>		
<p><i>Key Issue 18(d): A need to more appropriately recognize the use of technology in ISA 240</i></p>					
<p>18(d)(i): It has been highlighted that ISA 240 needs to be modernized for the auditor’s considerations about how new and evolving technologies, and current practice, impacts the auditor’s procedures when considering fraud.</p> <p><i>(Source(s): Other matters raised to date (not included in the Discussion Paper); Roundtable Discussions)</i></p>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Modernizing and enhancing application material in ISA 240 to reflect and describe fraud risks presented by use of modern technology as well as the auditor’s use of technology to perform fraud-related</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported modernizing ISA 240 for advancements in technology through describing fraud risks introduced by the use of modern technology as well as the auditor’s use of technology</li> </ul>	<p><b>(9) Application Material – Technology Considerations in the Current Environment</b></p> <p><i>Enhance application material in ISA 240 to reflect and describe fraud risks presented by use of technology, as well as the auditor’s use of technology to perform fraud-related procedures (while remaining mindful of maintaining</i></p>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings acknowledged the increasing use of technology by both fraudsters and auditors. For details, see the section “Impact of Technology” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>No significant changes have been made from what was originally proposed.</li> </ul>

<sup>14</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

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<ul style="list-style-type: none"> <li>Stakeholders commented that ISA 240 should be modernized to consider how technology may be used by the auditor to perform fraud procedures, and how it may result in additional fraud risks for an entity.</li> </ul>	<p>procedures (while remaining mindful of maintaining a balance of not 'dating' the standard by referring to technologies that may change and evolve).</p> <ul style="list-style-type: none"> <li>Working collaboratively with the Technology Working Group to determine if non-authoritative guidance could be used to support the application of ISA 240.</li> <li>Monitoring technology-related developments in the ISA 500<sup>15</sup> project.</li> </ul>	<p>to perform fraud-related procedures.</p> <ul style="list-style-type: none"> <li>There was also support for working collaboratively with the Technology Working Group to determine if non-authoritative guidance could be used to support the application of ISA 240.</li> </ul>	<p><i>a balance of not 'dating' the standard by referring to technologies that may change and evolve), including consulting with a technology expert, as needed.</i></p> <p><b>(10) Development of Non-Authoritative Guidance – Technology Considerations in the Current Environment</b></p> <p><i>Work collaboratively with the Technology Consultation Group to determine the need for further non-authoritative guidance that supports the application of ISA 240 in the current environment.</i></p>		
<p><i>Key Issue 18(e): Views that there is insufficient linkage of ISA 240 to the other ISAs to promote an integrated risk-based approach</i></p>					
<p>18(e)(i): It has been highlighted that the relationship between ISA 240 and ISA 250 (Revised)<sup>16</sup> is not clear, i.e., more clarity is needed if a fraud is suspected or identified, whether the auditor is performing procedures to</p>	<p>At the July IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Developing application material in ISA 240 highlighting the interrelationship between fraud and non-compliance with laws and regulations (i.e., fraud may</li> </ul>	<p>At the July IAASB meeting, the Fraud WG was encouraged to further consider strengthened proposals to clarify the relationship between ISA 240 and ISA 250 (Revised).</p> <ul style="list-style-type: none"> <li>Board members encouraged openness about possible</li> </ul>	<p><b>(11) Introductory Paragraphs and Application Material in ISA 240 – Relationship Between ISA 240 and ISA 250 (Revised)</b></p> <p><i>Enhance the introductory paragraphs and consider application material in ISA 240 to clarify the relationship</i></p>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Proposed enhancements to the introductory paragraphs to the standard to explain the relationship between the two ISAs upfront.</li> </ul>

<sup>15</sup> ISA 500, *Audit Evidence*

<sup>16</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>comply with ISA 240 or ISA 250 (Revised). (Source(s): Discussion Paper)</p> <ul style="list-style-type: none"> <li>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.</li> <li>Stakeholders expressed it may be helpful to clarify the relationship between ISA 240 and ISA 250 (Revised).</li> </ul>	<p>often constitute an illegal act and therefore, may also fall under ISA 250 (Revised)).</p> <ul style="list-style-type: none"> <li>Developing non-authoritative guidance that guides auditors in navigating the required actions to be taken when responding to identified fraud or suspected fraud under ISA 240, non-compliance under ISA 250 (Revised), and NOCLAR<sup>17</sup> under the IESBA Code.<sup>18</sup></li> </ul>	<p>changes to address the issues identified.</p> <ul style="list-style-type: none"> <li>Board members encouraged consideration of a possible requirement in ISA 240 to consider the impacts of ISA 250 (Revised) when fraud is identified or detected. However, there was a caution as to how ISA 240 deals with non-compliance with laws and regulations as that is separately covered by ISA 250 (Revised).</li> <li>A Board member noted there is typically established firm practice, including escalation procedures, in this area that may be useful to consider when addressing this issue.</li> <li>Board members suggested that non-authoritative guidance should not be prioritized when</li> </ul>	<p>between ISA 240 and ISA 250 (Revised), including:</p> <ul style="list-style-type: none"> <li>Highlighting the interrelationship between fraud and non-compliance with laws and regulations (i.e., fraud usually constitutes an illegal act and therefore, also falls under ISA 250 (Revised)).</li> </ul> <p><b>(12) Development of Non-Authoritative Guidance – Relationship Between ISA 240 and ISA 250 (Revised)</b></p> <p>Develop non-authoritative guidance that guides auditors in navigating the required actions to be taken when responding to identified fraud or suspected fraud under ISA 240, non-compliance under ISA 250 (Revised), and NOCLAR<sup>19</sup> under the IESBA Code.<sup>20</sup></p>		

<sup>17</sup> Non-compliance with laws and regulations (NOCLAR)

<sup>18</sup> The International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<sup>19</sup> Non-compliance with laws and regulations (NOCLAR)

<sup>20</sup> The International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
		<p>considering the possible actions as law and regulations is jurisdictional and not the same globally, so it may be difficult to effectively develop such guidance.</p>			
<p>18(e)(ii): The relationship between ISA 240 and various other ISAs (quality management standards, written representations, external confirmations, etc.) needs to be enhanced or clarified.</p> <p><i>(Source(s): Other matters raised to date (not included in the Discussion Paper))</i></p> <ul style="list-style-type: none"> <li>In addition to ISA 315 (Revised 2019) and ISA 250 (Revised), respectively, stakeholders commented it would be beneficial to understand how other ISAs relate with the procedures in ISA 240 and how the ISAs should be applied as</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>More effectively enhancing linkages between ISA 240 and ISA 220 (Revised), and ISQM 1<sup>21</sup> about resources, tone at the top and firm culture.</li> <li>Further considering whether changes are needed to strengthen the links to ISA 265<sup>22</sup> and ISA 610 (Revised 2013).<sup>23</sup></li> <li>Continuing to coordinate with the Group Audits and Audit Evidence Task Forces as needed.</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported enhancing the linkages in ISA 240 to other ISAs where the relationship between ISA 240 and the relevant other standard was not clear.</li> </ul>	<p><b>(13) Development of Non-Authoritative Guidance – Linkages Between ISAs</b></p> <p><i>Develop non-authoritative guidance that illustrates how ISA 240 should be applied in conjunction with the full suite of ISAs and highlights considerations from other standards that are critical when undertaking fraud-related procedures.</i></p>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud. However, this is an area where respondents to the Discussion Paper encouraged further exploration.</li> </ul>	<ul style="list-style-type: none"> <li>Addressed this topic more broadly by “developing non-authoritative guidance that illustrates how ISA 240 should be applied in conjunction with the full suite of ISAs and highlights considerations from other standards that are critical when undertaking fraud-related procedures.”</li> <li>Individual matters that had been grouped as “linkages” have been subsumed into individual proposed actions where they are relevant. The overarching issue about linkages relates to how ISA</li> </ul>

<sup>21</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>22</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

<sup>23</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>one integrated set of standards.</p>	<ul style="list-style-type: none"> <li>Adding an appendix or issue non-authoritative guidance to show the interconnectivity between ISA 240 and other ISAs (e.g., through a diagram).</li> </ul>				<p>240 interacts with the full suite of ISAs.</p>
<p><i>Key Issue 18(f): Further enhancements or clarity is needed for certain fraud-related procedures</i></p>					
<p>18(f)(i): There is uncertainty about what journal entries need to be tested to meet the requirement to test journal entries, resulting in inconsistent application.</p> <p><i>(Source(s): Other matters raised to date (not included in the Discussion Paper); Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>Stakeholders commented that further clarity is needed around the requirements for journal entry testing to improve consistency in application.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended enhancing requirements in ISA 240 to:</p> <ul style="list-style-type: none"> <li>Better link the auditor's risk assessment procedures (performed as part of ISA 315 (Revised 2019)) and the approach to journal entry testing.</li> <li>Modernize journal entry testing for current circumstances (i.e., how journal entry testing is currently performed and the impact of technology).</li> <li>Test journal entries throughout the period.</li> </ul> <p>The Fraud WG also recommended to:</p> <ul style="list-style-type: none"> <li>Consider enhancing the application material or</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported clarifications around journal entry testing.</li> <li>However, there were mixed views about testing journal entries throughout the period given that this may involve a significant increase in the auditor's work effort (unless appropriate to do so).</li> </ul>	<p><b>(14) Requirements and Application Material – Journal Entry Testing</b></p> <p><i>Enhance requirements and application material in ISA 240 to provide clarity to approach for journal entry testing (i.e., nature, timing and extent) and modernize the standard for current practice, including:</i></p> <p>Enhancing requirements in ISA 240 to:</p> <ul style="list-style-type: none"> <li>Clarify that the auditor's risk assessment procedures performed as part of ISA 315 (Revised 2019) drive the approach to journal entry testing when considering fraud.</li> <li>Consider the impact of technology in the requirement to test journal entries.</li> <li>Consider requiring the testing</li> </ul>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings noted that frauds are often committed through booking fictitious journal entries. For details, see the section "How Frauds are Executed and Concealed" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Provided more clarity around the proposed actions.</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

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	<p>developing non-authoritative guidance to clarify what the auditor's objectives are when testing journal entries, and help auditors understand how to determine the nature, timing and extent of the auditor's procedures related to journal entry testing.</p> <ul style="list-style-type: none"> <li>Consider the impact of any proposed changes being made to ISA 500 (e.g., testing the completeness of the population of journal entries).</li> </ul>		<p>of journal entries throughout the period.</p> <p>Enhancing application material to:</p> <ul style="list-style-type: none"> <li>Clarify what the auditor's objectives are when testing journal entries, and explain how auditors may determine the nature, timing and extent of the auditor's procedures for journal entry testing.</li> <li>Consider the impact of any proposed changes being made to ISA 500<sup>24</sup> (e.g., obtaining audit evidence about the completeness of the population of journal entries).</li> </ul>		
<p>18(f)(ii): It is not clear when it may or may not be appropriate to rebut the presumption of fraud in revenue recognition resulting in inconsistent application.</p> <p>18(f)(iii): In the current environment, some stakeholders have questioned whether the rebuttable presumption (of fraud risk in revenue recognition)</p>	<p>At the June 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Not expanding or removing the rebuttable presumption of risks of fraud in revenue recognition.</li> <li>Enhancing the application material in ISA 240 to:</li> </ul>	<p>At the June 2021 IAASB meeting, Board specific comments and suggestions included:</p> <ul style="list-style-type: none"> <li>Further exploration on how to shift focus from the auditor developing a rebuttal to the need for the auditor to perform robust risk identification and assessment.</li> </ul>	<p><b>(15) Requirements and Application Material – Rebuttable Presumption of Fraud Risk in Revenue Recognition</b></p> <p><i>Revise requirements and enhance application material in ISA 240 to clarify how performing a robust risk assessment is critical in determining whether or not the rebuttable</i></p>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings commented that revenue is still the most prominent area where fraud is committed. They also noted other areas susceptible to fraud. For details, see the section "Financial Accounts Impacted" in the <i>Additional</i></li> </ul>	<ul style="list-style-type: none"> <li>Enhanced the robustness of the proposed action to revise the requirement.</li> <li>Added further clarity to the proposed enhancements to the application material.</li> </ul>

<sup>24</sup> ISA 500, *Audit Evidence*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>needs to be extended to other account balances.</p> <p><i>(Source(s): Other matters raised to date (not included in the Discussion Paper))</i></p> <ul style="list-style-type: none"> <li>Stakeholders called for clarity around the concept of the rebuttable presumption of fraud risk in revenue recognition (i.e., when, and how to rebut) and had mixed views as to whether it remains appropriate, or whether it should be extended to other areas of the audit.</li> </ul>	<ul style="list-style-type: none"> <li>Highlight other areas that may be susceptible to material misstatement due to fraud.</li> <li>Clarify when it is inappropriate to rebut the presumption of risks of fraud in revenue recognition.</li> <li>Describe public sector considerations.</li> <li>Developing non-authoritative guidance to clarify considerations related to the rebuttable presumption of fraud risk in revenue recognition specific to certain industries.</li> </ul>	<ul style="list-style-type: none"> <li>For enhancements to application material, shifting away from clarifying when it may be appropriate to rebut the presumption of risk of fraud in revenue recognition, and focusing instead on when it is inappropriate to rebut the presumption. It was also noted that this may be a good opportunity to provide more guidance on rebutting fraud risks in revenue recognition.</li> </ul>	<p><i>presumption of fraud risk in revenue recognition is applicable, including:</i></p> <ul style="list-style-type: none"> <li>Revising the requirement in ISA 240 to shift the focus from the auditor developing a rebuttal to emphasizing the importance of performing robust risk identification and assessment.</li> <li>Enhancing the application material in ISA 240 to: <ul style="list-style-type: none"> <li>Highlight other areas that may be particularly susceptible to material misstatement due to fraud.</li> <li>Clarify when it is inappropriate to rebut the presumption of risks of fraud in revenue recognition (shifting away from clarifying when it may be appropriate to rebut the presumption of risk of fraud in revenue recognition).</li> </ul> </li> </ul>	<p><i>Root Cause Analysis of Fraud Cases.</i></p>	

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			<ul style="list-style-type: none"> <li>○ Describe public sector considerations.</li> </ul> <p><b>(23) Development of Non-Authoritative Guidance – Rebuttable Presumption of Fraud Risk in Revenue Recognition</b></p> <p><i>Consider developing non-authoritative guidance to clarify considerations about potential fraud risks/risk factors for specific industries when addressing the rebuttable presumption of fraud risk in revenue recognition, after considering changes made to requirements and application material in ISA 240.</i></p>		
<p>18(f)(iv): Questions have been raised whether analytical procedures at the planning and completion stages of the audit could or should be more robust as they relate to fraud.</p> <p><i>(Source(s): Responses to the Discussion Paper)</i></p> <ul style="list-style-type: none"> <li>• Stakeholders supported enhancing the requirements</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>• Requiring analytical procedures at the appropriate level of disaggregation at the planning and closing stages of the audit, with supporting application material to help implement such a revised</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>• The Board had mixed views about requiring analytical procedures at the appropriate level of disaggregation at the planning and closing stages of the audit (unless necessary).</li> </ul>	<p><b>(16) Application Material – Analytical Procedures</b></p> <p><i>Consider application material in ISA 240 that emphasizes the link to ISA 315 (Revised 2019) and ISA 520<sup>25</sup> with respect to analytical procedures at the planning and completion stages of the audit and how the auditor may be focused on the consideration of fraud,</i></p>	<ul style="list-style-type: none"> <li>• The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud. Respondents to the Discussion Paper supported further exploration in this area.</li> </ul>	<ul style="list-style-type: none"> <li>• Focused the proposed action on the development of application material through more clarity about the proposed action.</li> </ul>

<sup>25</sup> ISA 520, *Analytical Procedures*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>and application material or developing non-authoritative guidance to address issues identified for analytical procedures.</p>	<p>requirement in the context of the auditor's fraud considerations.</p> <ul style="list-style-type: none"> <li>Developing non-authoritative guidance, in coordination with the Technology Working Group, in using automated tools and techniques when performing analytical procedures.</li> </ul>		<p><i>when undertaking such procedures including, for example, performing analytical procedures at the appropriate level of disaggregation (e.g., disaggregation by product line and by geography).</i></p> <p><b>(24) Development of Non-Authoritative Guidance – Using Automated Tools and Techniques to Perform Analytical Procedures</b></p> <p><i>Consider developing non-authoritative guidance, with input and support from the Technology Consultation Group, to highlight how analytics may be used in the current environment to help target fraud procedures and identify anomalies that should be investigated.</i></p>		
<p>18(f)(v): A need has been expressed for clarification of what needs to be done when fraud is suspected or detected.</p> <p><i>(Source(s): Other matters raised to date (not included in the Discussion Paper))</i></p> <ul style="list-style-type: none"> <li>Stakeholders noted ISA 240 is not clear on how to respond</li> </ul>	<p>At the July 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Reorganizing the existing requirements and application material (recognizing that in doing so, enhancements could also be explored or become apparent) into a separate section in ISA 240 when fraud or suspected fraud is identified.</li> </ul>	<p>At the July IAASB meeting, Board members that commented broadly supported the proposals but encouraged the Fraud WG to also consider whether any enhancements are needed.</p> <ul style="list-style-type: none"> <li>Board members questioned whether re-ordering the requirements would change auditor behavior and</li> </ul>	<p><b>(17) Requirements and Application Material – Procedures When Fraud Is Detected or Identified</b></p> <p><i>Designate a separate section in ISA 240 for required audit procedures when fraud is identified or suspected, including:</i></p> <ul style="list-style-type: none"> <li>Developing new requirements, relocating existing</li> </ul>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud. However, this is an area where respondents to the Discussion Paper encouraged further</li> </ul>	<ul style="list-style-type: none"> <li>Provided more clarity around the proposed action.</li> <li>Added “enhancing application material as needed.”</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>appropriately to fraud or suspected fraud identified during the audit. Stakeholders commented that it may be helpful to provide clearer direction in ISA 240 on how to respond appropriately to fraud or suspected fraud identified during the audit.</p>		<p>challenged if more is needed.</p> <ul style="list-style-type: none"> <li>Board members encouraged the Fraud WG to look at requirements related to non-compliance with laws and regulations in the IESBA Code.</li> </ul>	<p>requirements, or elevating existing application material to requirements.</p> <ul style="list-style-type: none"> <li>Enhancing application material as needed.</li> </ul>	<p>exploration.</p>	
<p>18(f)(vi): The standard requires that procedures are performed that are unpredictable, but more clarity is needed about what types of procedures should be undertaken.</p> <p><i>(Source(s): Responses to the Discussion Paper; Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>Stakeholders commented that further guidance would be useful to understand the types of unpredictability procedures that may be considered when developing the plan for their fraud audit procedures.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Further explaining the types of unpredictability procedures that can be incorporated in the application material to help auditors understand how these procedures can be done.</li> <li>Further developing non-authoritative guidance on this topic.</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported enhancing application material by explaining the types of unpredictability procedures that may be considered in an audit.</li> <li>It was noted that consideration should also be given to how these types of procedures may be applied in audits of LCEs.</li> </ul>	<p><b>(18) Application Material – Unpredictability Procedures</b></p> <p><i>Enhance or clarify application material in ISA 240 on how to consider unpredictability procedures in the current environment, including providing examples of the types of procedures that can be used by the auditor.</i></p>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud. However, this is an area where a Monitoring Group member encouraged further exploration in their response to the Discussion Paper. This was also an area where participants in the fraud roundtables encouraged further exploration.</li> </ul>	<ul style="list-style-type: none"> <li>Provided more clarity around the proposed action.</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
 IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>18(f)(vii): Clarity is needed whether more needs to be done when a possible non-material fraud is identified.</p> <p><i>(Source(s): Discussion Paper; Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>Stakeholders supported further clarity around the auditor's responsibilities when a possible non-material fraud is identified.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Not expanding the scope of the auditor to detect all non-material fraud.</li> <li>Standard-setting (enhanced requirements and/or application material) to clarify the auditor's responsibilities when a possible non-material fraud is identified (e.g., that more work is required to conclude that it is a non-material fraud, taking into account the quantitative and qualitative characteristics of the misstatement).</li> <li>Further consideration to develop non-authoritative guidance to help auditor's understand what actions are necessary when a possible non-material fraud is identified, including clarifying the roles and responsibilities of those charged with governance (TCWG), management and the auditor with respect to the</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board did not support expanding the responsibilities of the auditor to detect all non-material fraud.</li> <li>However, the Board supported possibly developing non-authoritative guidance to help auditor's understand what actions are necessary when non-material fraud is identified.</li> </ul>	<p><b>(19) Introductory Paragraphs and Application Material in ISA 240 – Non-Material Fraud</b></p> <p><i>Enhance the introductory paragraphs and consider application material in ISA 240 to explain the auditor's actions when non-material fraud is suspected or identified (e.g., that more work is required to conclude that it is a non-material fraud, taking into account the quantitative and qualitative characteristics of a possible misstatement).</i></p>	<ul style="list-style-type: none"> <li>The participants in the root cause analysis outreach meetings described that almost all frauds start small and grow more material over time. For details, see the section "Materiality Over Time" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> <li>In addition, participants noted that frauds committed by lower-level employees tend to be less material and the nature is more often misappropriation of assets. See the section "Who Is Involved" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Clarified the proposed action, including to enhance the introductory paragraphs to help the auditor focus on how to consider fraud in the context of materiality.</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	possible non-material fraud.				
<p>18(f)(viii): Clarity is needed around the auditor’s responsibilities on third party fraud.</p> <p>(Source(s): Discussion Paper; Roundtable Discussions)</p> <ul style="list-style-type: none"> <li>Stakeholders supported further clarity around the auditor’s responsibilities for third-party fraud.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Not expanding the role of the auditor to detect third-party fraud that is not directly related to a material misstatement in the financial statements (i.e., operational, or reputational risk without financial risk).</li> <li>Further consideration for non-authoritative guidance to clarify the auditor’s responsibilities regarding the risk of material misstatement due to third party fraud, and further implications for auditors.</li> <li>Collaborating with the Technology Working Group to determine if non-authoritative guidance on cybercrime would be useful.</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board did not support expanding the role of the auditor to detect third-party fraud that is not directly related to a material misstatement in the financial statements.</li> <li>However, the Board supported collaborating with the Technology Working Group to determine if non-authoritative guidance on cybercrime would be useful.</li> </ul>	<p><b>(20) Application Material – Third Party Fraud</b></p> <p><i>Enhance application material in ISA 240 to determine the auditor’s actions when third party fraud is suspected or identified that may give rise to risks of material misstatement due to fraud.</i></p> <p><b>(25) Development of Non-Authoritative Guidance – Technology Related Third Party Fraud</b></p> <p><i>Work collaboratively with the Technology Consultation Group to determine the need for further non-authoritative guidance on third party fraud (e.g., cybercrime).</i></p>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings noted that it is common for third parties to be involved in fraud. Participants also noted that System and Organization Control (SOC) 1 reports are not common in all jurisdictions internationally, which contributes to lack of controls oversight related to third parties. For details, see the section “Who Is Involved” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> <li>In addition, participants cited examples of how frauds are executed and concealed involving third parties (e.g., structured transactions and roundtrip transactions). See the section “How Frauds are Executed and Concealed” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Focused on a proposed action within the application material to address the identified issue.</li> </ul>

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>18(f)(ix): There has been a call for clarity on what needs to be documented for the auditor's fraud-related procedures and findings.</p> <p><i>(Source(s): Responses to the Discussion Paper)</i></p> <ul style="list-style-type: none"> <li>Stakeholders supported enhancing or clarifying the documentation requirements in ISA 240.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Considering whether additional fraud-related specific documentation requirements are needed, including documentation of the fraud risk factors considered as well as the auditor's actions if a fraud is identified.</li> <li>Considering whether there are changes arising out of the work on documentation from the CUSP Drafting Principles and Guidelines and working with the CUSP Working Group to consider whether further non-authoritative guidance specific to the auditor's documentation on fraud is needed.</li> <li>Considering the scalability and proportionality of any additional documentation requirements and coordinating with the LCE Task Force as appropriate.</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board had mixed views on whether additional fraud-related specific documentation requirements are needed.</li> <li>However, it was acknowledged that further consideration of this would be needed once the other changes within the standard had been made as such changes may necessitate new specific documentation requirements.</li> </ul>	<p><b>(21) Requirements and Application Material – Audit Documentation</b></p> <p><i>Consider enhancing or expanding the specific documentation requirements in ISA 240 and adding application material, as appropriate (once the other changes within the standard had been made as such changes may necessitate new or revised specific documentation requirements and guidance).</i></p>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud. However, this is an area where stakeholders encouraged further exploration in their responses to the Discussion Paper.</li> </ul>	<ul style="list-style-type: none"> <li>No significant changes have been made to what was originally proposed, except to explain that any new proposed actions would be determined after other changes had been developed.</li> </ul>
<p>18(f)(x): Questions have been raised whether the external confirmation</p>	<p>At the June 2021 IAASB meeting, the Fraud WG recommended:</p>	<p>At the June 2021 IAASB meeting, Board specific comments and</p>	<p><b>(22) Application Material – External</b></p>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings</li> </ul>	<ul style="list-style-type: none"> <li>Focused the proposed action with those actions that would</li> </ul>

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<p>process, as relevant to the auditor's considerations on fraud, could or should be more robust.</p> <p><i>(Source(s): Responses to the Discussion Paper; Area of focus in the current environment)</i></p> <ul style="list-style-type: none"> <li>Although there was not a strong call for changes on external confirmations in relation to fraud, this is an area of focus in the current environment by many in the financial reporting ecosystem.</li> </ul>	<ul style="list-style-type: none"> <li>Coordinating with the Audit Evidence Task Force as to which aspects of the issues raised by respondents may be addressed in the scope of that project and which aspects are in scope for the fraud project, particularly about the reliability of responses to confirmation requests.</li> <li>Possible enhancements to modernize the application material in ISA 240 for developments on technology, including technology used in practice for external confirmations.</li> <li>Exploring whether enhanced application material in ISA 240 or non-authoritative guidance is needed to address: <ul style="list-style-type: none"> <li>Clarification of auditor procedures when there are non-responses;</li> <li>Emphasis of the</li> </ul> </li> </ul>	<p>suggestions included:</p> <ul style="list-style-type: none"> <li>Consideration of scope to only explore enhancements specific to fraud. It was noted that broader enhancements related to external confirmations may need to be considered for a possible future project on ISA 505,<sup>26</sup> with encouragement to coordinate with the Audit Evidence Task Force in this area.</li> </ul>	<p><b>Confirmations</b></p> <p><i>Enhance application material in ISA 240 related to fraud considerations for external confirmation procedures (e.g., when considering third party fraud), including:</i></p> <ul style="list-style-type: none"> <li>Modernizing ISA 240 for current practice and developments in technology, including technology used in practice for external confirmations.</li> <li>Considering the impacts of revisions to ISA 500 on ISA 240 on audit evidence obtained from the external confirmation process.</li> <li>Clarifying auditor considerations with regard to fraud when there are non-responses.</li> <li>Emphasizing the usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud.</li> </ul>	<p>noted external confirmations are an important tool to carry out audit procedures but noted no issue with the auditing standards. For details, see the section "What Auditors Can Do Better" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</p>	<p>be within the remit of a project on fraud.</p>

<sup>26</sup> ISA 505, *External Confirmations*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
 IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	<p>usefulness of external confirmations as an audit procedure when there is a heightened risk of fraud; and</p> <ul style="list-style-type: none"> <li>○ Considerations around modernizing negative confirmations in line with current practice.</li> </ul>				
<p><b>Project Objective 11(c):</b> Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures.</p>					
<p><i>Key Issue 18(g): A need to reinforce the appropriate exercise of professional skepticism</i></p>					
<p>18(g)(i): There are views that the robustness of the requirements for the auditor’s exercise of professional skepticism as it relates to the auditor’s considerations about fraud needs to be enhanced.</p> <p><i>(Source(s): Discussion Paper; Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>• Stakeholders called for enhancements and emphasis around the existing concept of professional skepticism to include changes that were made in recently approved</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>• Enhancing the auditor’s exercise of professional skepticism in undertaking fraud procedures by exploring whether standard setting (i.e., requirements and/or application material) is needed and appropriate (e.g., using stronger language such as “challenge,” “question,” “reconsider” and focusing on management bias).</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>• The Board suggested enhancing the application of the existing concept of professional skepticism. It was also noted that the standard could be enhanced when fraud is suspected or identified and in demonstrating how the auditor applies professional skepticism in such circumstances.</li> </ul> <p>At the June 2021 IAASB meeting, Board specific comments and</p>	<p><b>(26) Requirements and Application Material – Professional Skepticism</b></p> <p><i>Enhance requirements and application material in ISA 240 to reinforce more robust exercise of professional skepticism when performing procedures related to fraud, including:</i></p> <ul style="list-style-type: none"> <li>• Enhancing requirements and application material in ISA 240 for the auditor to design and perform procedures that is not biased towards obtaining audit evidence that may be corroborative or towards</li> </ul>	<ul style="list-style-type: none"> <li>• Participants in the root cause analysis outreach meetings noted that auditors need to exercise professional skepticism more robustly. For details, see the section “What Auditors Can Do Better” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> <li>• Based on the feedback obtained as part of this root cause exercise, the Fraud WG will also consider whether enhanced emphasis on the importance of face-to-face</li> </ul>	<ul style="list-style-type: none"> <li>• No significant changes have been made to what was originally proposed except to further describe how the Fraud Task Force would interact with the Professional Skepticism Consultation Group.</li> <li>• Relocated to “ongoing activities” the possible action to “collaborate with other IAASB workstreams, such as the Professional Skepticism Working Group and other active projects where professional skepticism is</li> </ul>

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<p>standards such as ISA 540 (Revised)<sup>27</sup> and ISA 315 (Revised 2019).</p>	<ul style="list-style-type: none"> <li>Further consideration of the changes made in ISA 315 (Revised 2019) and ISA 540 (Revised) relating to professional skepticism (i.e., introducing a requirement to consider contradictory and corroborative evidence) could also be considered.</li> <li>Developing non-authoritative guidance to illustrate how the specific requirements in the ISAs addressing professional skepticism can be applied. For example, the guidance can illustrate how to apply the requirement to design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory through example scenarios.</li> <li>No further consideration of a</li> </ul>	<p>suggestions included:</p> <ul style="list-style-type: none"> <li>Support for enhanced application material and non-authoritative guidance to illustrate the 'ramp up' of procedures and give practical examples of professional skepticism applied in certain circumstances.</li> <li>Recognize the linkage between professional skepticism and the potential role of forensic specialists.</li> <li>Provide more detail about future collaboration with other IAASB workstreams in the development of the project proposal, with encouragement to describe more specifically the detailed actions for the relevant workstreams.</li> </ul>	<p>excluding evidence that may be contradictory.</p> <p><b>(27) Development of Non-Authoritative Guidance – Professional Skepticism</b></p> <p><i>Develop non-authoritative guidance to illustrate the 'ramp up' of procedures when a fraud is identified or suspected and to give some practical examples of professional skepticism in such circumstances.</i></p>	<p>interaction is needed in ISA 240 related to the application of professional skepticism.</p>	<p>being considered (e.g., Audit Evidence, Going Concern) in developing possible enhancements (requirements or application material) or non-authoritative guidance related to professional skepticism.”</p>

<sup>27</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
 IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	<p>scaled approach to professional skepticism (this has previously been discussed by the IAASB and not further pursued).</p> <p>At the June 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>• Enhancing and emphasizing the requirements and application material on the current concept of professional skepticism.</li> <li>• Developing non-authoritative guidance to illustrate the 'ramp up' of procedures when a fraud is identified or suspected and to give some practical examples of professional skepticism in such circumstances.</li> <li>• Collaborating with other IAASB workstreams, such as the Professional Skepticism Working Group and other active projects where professional skepticism is being considered (e.g., Audit</li> </ul>				

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	Evidence, Going Concern) in developing possible enhancements (requirements or application material) or non-authoritative guidance related to professional skepticism.				
<p><b>Project Objective 11(d):</b> Enhance transparency on fraud-related procedures, including strengthening communications with those charged with governance (TCWG) and the reporting requirements in ISA 240 and other relevant ISAs.</p>					
<p><i>Key Issue 18(h): Views that transparency about the auditor's fraud-related procedures in communications between the auditor and TCWG and within the auditor's report should be enhanced</i></p>					
<p>18(h)(i): Questions have been raised whether the required communications with TCWG on fraud considerations are robust enough in the current environment, including that such communications are not presently explicitly required throughout the audit.</p> <p>18(h)(ii): It has been highlighted by some stakeholders that the auditor's report is not transparent enough about the auditor's fraud-related responsibilities and procedures.</p> <p><i>(Source(s): Discussion Paper; Roundtable Discussions)</i></p> <ul style="list-style-type: none"> <li>Stakeholders called for</li> </ul>	<p><b>Transparency with TCWG</b></p> <p>At the April 2021 IAASB meeting, the Fraud WG recommended enhancing the requirements and application material in ISA 240, as well as possible targeted enhancements in ISA 260 (Revised),<sup>28</sup> for communications with TCWG on fraud, with emphasis on the following:</p> <ul style="list-style-type: none"> <li>Greater two-way communication with TCWG and management throughout the audit engagement by: <ul style="list-style-type: none"> <li>Requiring, in ISA 240, that the auditor has a</li> </ul> </li> </ul>	<p><b>Transparency with TCWG</b></p> <p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board supported changes to enhance the auditor's communications with TCWG through greater two-way communication throughout the audit engagement (e.g., specific discussion with TCWG about the entity's risks of material misstatement due to fraud and challenging TCWG to demonstrate how they have addressed such risks).</li> </ul> <p><b>Transparency in the Auditor's</b></p>	<p><b>(28) Requirements and Application Material – Transparency with TCWG and in the Auditor's Report on Fraud-Related Responsibilities and Procedures</b></p> <ul style="list-style-type: none"> <li>Enhance requirements and application material in ISA 240 to strengthen required communications with TCWG, including: <ul style="list-style-type: none"> <li>Enhancing the requirements in ISA 240 for specific discussions with TCWG about the entity's risks of material</li> </ul> </li> </ul>	<p><b>Transparency with TCWG</b></p> <ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings noted that an auditor's understanding of corporate culture and internal controls, including oversight from TCWG, is critical to identifying fraud red flags. For details, see section "How Frauds are Detected, and By Who" in the <i>Root Cause Analysis of Fraud Cases</i>.</li> </ul> <p><b>Transparency in the Auditor's Report</b></p>	<p>On transparency with TCWG:</p> <ul style="list-style-type: none"> <li>No significant changes have been from what was originally proposed except to provide clarity about the auditor's proposed actions.</li> </ul> <p>On transparency in the auditor's report:</p> <ul style="list-style-type: none"> <li>Enhanced the proposed action to further explore changes to the auditor's report in light of the strong mixed views about whether changes to the auditor's report are needed.</li> </ul>

<sup>28</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
<p>enhanced transparency and two-way communication with TCWG on the topic of fraud. However, not all entities or jurisdictions require the same type of corporate governance structure.</p> <ul style="list-style-type: none"> <li>Stakeholders had mixed views, including Monitoring Group members, and participants of other information-gathering activities, on whether or not more transparency is needed in the auditor's report describing fraud related matters.</li> </ul>	<p>specific discussion with TCWG (who are independent of management) about the entity's risks of material misstatement due to fraud, including susceptibility to misstatement due to management bias, and corroborating with TCWG inquiries of management.</p> <ul style="list-style-type: none"> <li>Requiring, in ISA 240, that the auditor assess whether the remediation measures taken by management and TCWG for identified or suspected fraud are appropriate.</li> <li>Requiring, in ISA 260 (Revised), that the auditor communicate in writing with TCWG the auditor's responsibilities specific to fraud.</li> </ul>	<p><b>Report</b></p> <p>At the July IAASB meeting, mixed views were expressed by Board members about the Fraud WG's recommendations, but there was agreement that further consideration is needed as to whether more transparency in the auditor's report is needed and exploration of how this could be done.</p> <ul style="list-style-type: none"> <li>Board members strongly encouraged the Fraud WG to further explore transparency in the auditor's report to determine the most appropriate way to address this key public interest issue. <ul style="list-style-type: none"> <li>Board members encouraged continued monitoring of changes made in local jurisdictions (e.g., the United Kingdom) for increased transparency related to fraud in the auditor's report.</li> </ul> </li> <li>Some Board members strongly encouraged consideration of</li> </ul>	<p>misstatement due to fraud and to encourage more appropriate two-way communication. Enhancements could include, for example, explicit discussions about:</p> <ul style="list-style-type: none"> <li>Susceptibilities to misstatement due to management bias, and corroborating inquiries of management with TCWG.</li> <li>The auditor's evaluation of the entity's components of internal control (when performing risk assessment procedures in accordance with ISA 315</li> </ul>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud. Respondents to the Discussion Paper had mixed views on this matter.</li> </ul>	

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
 IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	<ul style="list-style-type: none"> <li>○ Requiring, in ISA 260 (Revised), that the auditor communicate in writing with TCWG any potential indicators of management bias to allow TCWG to monitor the bias and take appropriate actions, as needed.</li> <li>• Clarifying in the application material of ISA 240 that effective participation by TCWG is influenced by their independence from management and their ability to evaluate the actions of management.</li> </ul> <p><b>Transparency in the Auditor's Report</b></p> <p>At the July IAASB meeting, the Fraud WG recommended further direction from the Board on whether additional possible actions may need to be pursued recognizing the variation in views about transparency.</p> <ul style="list-style-type: none"> <li>• Possible action 1: Not requiring</li> </ul>	<p>standard-setting in this area to require more transparency in the auditor's report.</p> <ul style="list-style-type: none"> <li>○ A Board member strongly believed standard-setting is needed in this area based on stakeholder responses to the Discussion Paper.</li> <li>○ The Chair noted that the possible action for this matter should be to explore and consider standard-setting, and again encouraged the Fraud WG to take an open and ambitious approach to addressing this issue.</li> <li>• Some Board members expressed strong concern with requiring more transparency in the auditor's report related to fraud.</li> <li>○ It could add to the length of the report without adding</li> </ul>	<p>(Revised 2019)).</p> <ul style="list-style-type: none"> <li>- Remediation measures taken by management and TCWG for identified or suspected fraud and their appropriateness in the circumstances.</li> <li>○ Enhancing the requirements in ISA 240 to emphasize the ongoing nature of communications with TCWG about fraud throughout the audit.</li> <li>○ Clarifying in the application material of ISA 240 that effective participation by TCWG is influenced by their independence from management and their ability to objectively</li> </ul>		

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	<p>more transparency in the auditor's report on fraud since it can be addressed through the communication of key audit matters (KAMs) in the auditor's report for certain entities. For those entities not required to communicate KAMs in the auditor's report, more transparency on fraud could be achieved through greater two-way communications with TCWG.</p> <ul style="list-style-type: none"> <li>• Possible action 2: Further exploration of similar requirements in local jurisdictions (e.g., the United Kingdom) for increased transparency related to fraud in the auditor's report.</li> <li>• Possible action 3: Developing non-authoritative guidance, to be further explored in coordination with the Auditor Reporting Implementation Working Group, on when a</li> </ul>	<p>substantive information (i.e., there is a risk of boilerplate disclosures).</p> <ul style="list-style-type: none"> <li>○ Significant changes to the auditor's report had only recently been made, and encouragement to allow time for those requirements to settle before making changes to the auditor's report again.</li> <li>○ Non-authoritative guidance could be useful in helping auditor's apply the current requirements, in particular in relation to the interaction of fraud and KAMs.</li> <li>• Some Board members encouraged the use of the existing KAM mechanism in</li> </ul>	<p>evaluate the actions of management.</p> <ul style="list-style-type: none"> <li>• <i>Explore<sup>30</sup> revisions to requirements and enhancements to application material to determine the need for more transparency in the auditor's report describing fraud-related matters, including:</i> <ul style="list-style-type: none"> <li>○ Exploring what changes may be needed to better describe the auditor's procedures related to fraud in an audit of financial statements.</li> <li>- Considering changes made by others in different jurisdictions.</li> <li>○ Considering revisions to clarify the interaction of key audit matters</li> </ul> </li> </ul>		

<sup>30</sup> The term "explore" is used here because this is an area where significant mixed views were expressed by stakeholders and during Board deliberations regarding the need for enhanced transparency in the auditor's report and will require further consideration by the Fraud Task Force and the Board before proposed actions can be proposed.

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	fraud-related matter is a KAM.	ISA 701 <sup>29</sup> to enhance transparency on fraud-related matters in the auditor's report. Board members encouraged the Fraud WG to remain open to solutions that may require standard-setting actions to revise or add application material in ISA 701.	<ul style="list-style-type: none"> <li>○ and fraud-related matters.</li> <li>○ Undertaking additional outreach with investor groups and other relevant stakeholders about the need for more transparency in the auditor's report.</li> </ul>		
<b>Areas Where No Further Action Is Recommended</b>					
<p><b>Suspicious mindset</b> (Source(s): Discussion Paper; Roundtable Discussions)</p> <ul style="list-style-type: none"> <li>• Stakeholders did not generally support a suspicious mindset but suggested enhancing the existing concept of professional skepticism.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>• Not further pursuing the concept of a "suspicious mindset" more broadly in the ISAs, but rather enhancing the existing concept of professional skepticism.</li> <li>• Further exploring whether limited circumstances may necessitate the use of a suspicious mindset (i.e., determining whether there are elements of the audit that may</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>• The Board did not support further pursuing the concept of a "suspicious mindset" but rather suggested enhancing the application of the existing concept of professional skepticism.</li> <li>• There were mixed views about further exploring whether the use of a 'suspicious mindset' could be incorporated in ISA 240 in limited, specific circumstances, as it may be</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable – No further action is recommended.</li> </ul>	<ul style="list-style-type: none"> <li>• Participants in the root cause analysis outreach meetings supported enhancements to professional skepticism for the auditor, but not a suspicious mindset. For details, see the section "What Auditors Can Do Better" in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable – No further action is recommended.</li> </ul>

<sup>29</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	<p>benefit from a suspicious mindset).</p> <p>At the June 2021 IAASB meeting, the Fraud WG recommended not introducing the concept of a “suspicious mindset” in the ISAs.</p>	<p>difficult to establish how to “switch on and off” between a skeptical and a suspicious mindset.</p> <p>At the June 2021 IAASB meeting, the Board reiterated its support for not further pursuing the concept of a “suspicious mindset” but rather enhancing the application of the existing concept of professional skepticism.</p>			
<p><b>Closer or enhanced linkage to ISA 550<sup>31</sup></b></p> <p><i>(Source(s): Responses to the Discussion Paper)</i></p> <ul style="list-style-type: none"> <li>Stakeholders supported enhancements in the standards to strengthen the link between ISA 240 and ISA 550.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>Standard-setting by enhancing the requirements in ISA 240 to promote the auditor’s consideration of related parties when undertaking audit procedures related to fraud.</li> <li>Considering what other NSS have done to strengthen the relationship between fraud and related parties, for example in PCAOB<sup>32</sup> Auditing Standard</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board considered possibly enhancing ISA 240 to make the auditors considerations around fraud that could occur in related parties stronger.</li> <li>However, it was noted that there is already sufficient material in ISA 550 addressing fraud risk factors arising from related party relationships and transactions that are relevant to the identification and</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable – No further action is recommended.</li> </ul>	<ul style="list-style-type: none"> <li>Participants in the root cause analysis outreach meetings noted that involvement of related parties is more common in certain jurisdictions than others but did not call for additional audit procedures in this area. For further details, see the section “Whether Frauds Involve Related Parties” in the <i>Additional Root Cause Analysis of Fraud Cases</i>.</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable – No further action is recommended.</li> </ul>

<sup>31</sup> ISA 550, *Related Parties*

<sup>32</sup> Public Company Accounting Oversight Board (PCAOB)

Overall Analysis of Issues, Working Group Recommendations, Board Decisions, including Matters Identified from the Additional Root Cause Analysis of Fraud Cases  
IAASB Main Agenda (December 2021)

Issues/Themes Identified <sup>2</sup>	Fraud WG Recommendations	Board Decisions or Direction, and Comments	Draft Scope of the Project Proposal <sup>3</sup>	Matters Identified from the Additional Root Cause Analysis of Fraud Cases	Changes in the Draft Scope of the Project Proposal <sup>4</sup>
	<p>No. 2410: Related Parties.</p> <ul style="list-style-type: none"> <li>Exploring what more can be done to encourage auditor's consideration of related parties when undertaking fraud procedures, for example, through non-authoritative guidance.</li> </ul>	<p>assessment of the risks of material misstatement due to fraud.</p>			
<p><b>Engagement quality reviews</b> (Source(s): Discussion Paper)</p> <ul style="list-style-type: none"> <li>Stakeholders were broadly not supportive of enhancing the requirements for engagement quality reviews.</li> </ul>	<p>At the April 2021 IAASB meeting, the Fraud WG recommended:</p> <ul style="list-style-type: none"> <li>No further actions related to engagement quality reviews in ISQM 1 and ISQM 2<sup>33</sup> as the requirements and application material in the recently approved ISQM standards on this topic are considered sufficiently robust.</li> </ul>	<p>At the April 2021 IAASB meeting:</p> <ul style="list-style-type: none"> <li>The Board broadly did not support enhancing requirements for engagement quality reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable – No further action is recommended.</li> </ul>	<ul style="list-style-type: none"> <li>The additional information gathering activities performed and described in the <i>Additional Root Cause Analysis of Fraud Cases</i> did not directly attribute this matter as a root cause of issues related to fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable – No further action is recommended.</li> </ul>

<sup>33</sup> ISQM 2, *Engagement Quality Reviews*