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# Fraud Considerations for Auditors

Presenter: **Lettie Janse van Vuuren CA(SA)**

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***IRBA Staff Audit Practice Alert 4: A South African  
Perspective on the Auditor's Considerations Relating to  
Fraud***

# Presenter

## Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

- Lettie joined SA Accounting Academy in November 2017 as Head of Technical. She is a Chartered Accountant, Registered Auditor and Certified Business Accountant.
- She is a **professional trainer and webinar host**, and with her relaxed and humorous presentation style, she is able to hold the attention of an audience. She has a unique ability to communicate with delegates at their respective levels of knowledge and experience. Over the last 20 years, she has trained thousands of partners, managers, trainee accountants and other professionals.
- She is responsible for our MCLU (Monthly Compliance and Legislation Updates).
- She was the Professional Development Manager at SAICA for 4 years and in charge of accrediting new training offices and monitoring existing ones (including the moderation of training offices and trainee assessments).
- Lettie is passionate about improving the efficiency and standardisation at practices. She has extensive experience on a variety of technical and practical topics which she consults on, including: SAICA re-accreditation assistance and preparation, IRBA inspection assistance and preparation, audit file reviews (post-issuance monitoring and EQCR), Quality control implementation, other office-specific manuals, and FASSET skills development facilitation.



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# WHAT'S ON THE AGENDA?

# Table of Contents

Module 1: Introduction

Module 2: ISA 240 in a Nutshell

Module 3: Implementation Guidance to Respond to the Risks of  
Material Misstatements due to Fraud (Key themes)

Module 4: Appendices

Module 5: IRBA Fraud webpage



# Quote

*“If you see fraud  
and do not say fraud,  
you are a fraud”*

- Nassim Taleb



# MODULE 1

# INTRODUCTION

# Module 1

The following items are dealt with here:

1. General
2. IRBA Communiqué
  - Based on **IRBA Staff Audit Practice Alert 4: A South African Perspective on the Auditor's Considerations Relating to Fraud**

# General

## What is fraud?

- ❑ The perpetration of fraud, causing material misstatements in the financial statements and/or non-compliance with laws and regulations, has become more prevalent at entities in South Africa over the past few years.

## What must auditors do?

- Registered auditors (RAs) are required to **be alert to the possibility of fraud**, thereby enabling them to respond appropriately
- **NB! = Auditors are NOT required to find fraud – unless they have been engaged to perform a forensic audit!**

# What is fraud?

## Definition as per ISA 240:

- ❑ Fraud is defined as an intentional act, by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage

## 2 Types of intentional misstatements are relevant to the auditor:

- ❑ misstatements resulting from **fraudulent financial reporting** and
- ❑ misstatements resulting from **misappropriation of assets**

➤ **Refer to IRBA Staff Alert pages 1 and 2**

# The Fraud Triangle

## Opportunity:

Circumstances exist that provide an opportunity for fraud to be perpetrated.

Opportunity

## Attitudes & Rationalisation:

Those involved in the fraud are able to rationalise committing a fraudulent act.

Attitudes &  
Rationalisation

## Incentives & Pressures:

Management or employees have an incentive or are under pressure, real or perceived, which provides a reason to commit the fraud.

Incentives &  
Pressures

Fraud  
Triangle

# IRBA Staff Alert

## **IRBA Staff Audit Practice Alert 4: A South African Perspective on the Auditor's Considerations Relating to Fraud**

- ❑ *Published in June 2020*
- ❑ *IRBA Communiqué released on 18 June 2020*

### **The release of this IRBA Staff Audit Practice Alert:**

- Provides a South African perspective on the auditor's considerations relating to fraud.
  - Responds to the immediate needs of auditors by providing implementation guidance on the auditor's considerations relating to fraud.
- ***This IRBA Staff Alert is available to you as a Source Document***

# MODULE 2

# ISA 240 IN A NUTSHELL

# ISA 240 in a Nutshell

The following items are dealt with here:

## 1. Summary

➤ *Refer to Webinar Material for detail*

**ISA 240**, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (ISA 240), deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it **expands on how ISA 315 (Revised) and ISA 330 are to be applied in relation to risks of material misstatement due to fraud.**

***We will not be dealing with this ISA in detail. Instead, we will focus on the issues that have been highlighted in view of the COVID-19 pandemic, and other specific considerations that have been published for the 1st time.***

## MODULE 3

# IMPLEMENTATION GUIDANCE TO RESPOND TO THE RISKS OF MATERIAL MISSTATEMENTS DUE TO FRAUD (KEY THEMES)

# Key Themes

The following items are dealt with here:

1. The auditor's objectives and management's responsibilities relating to fraud and the related expectation gap
2. The importance of applying professional scepticism and exercising professional judgment
  - Auditor Objectivity and Scepticism
  - Auditors are encouraged to develop a more sceptical mindset
  - The Application of Professional Scepticism

➤ ***Refer to Source Document pages 4 to 33***

# Auditor Objectivity & Scepticism

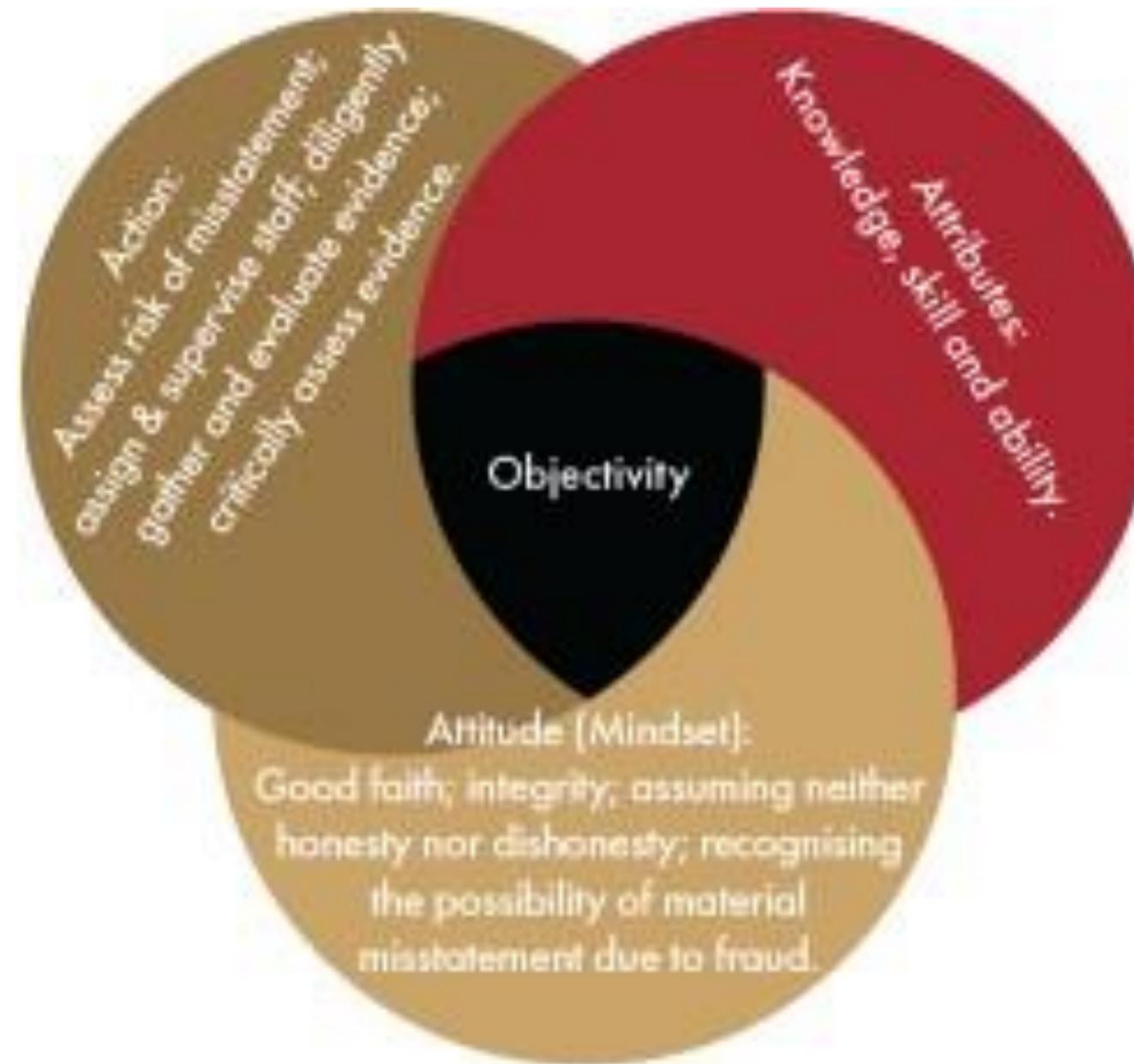


Image Source: Jeanette M. Franzel

# Auditor Objectivity & Scepticism

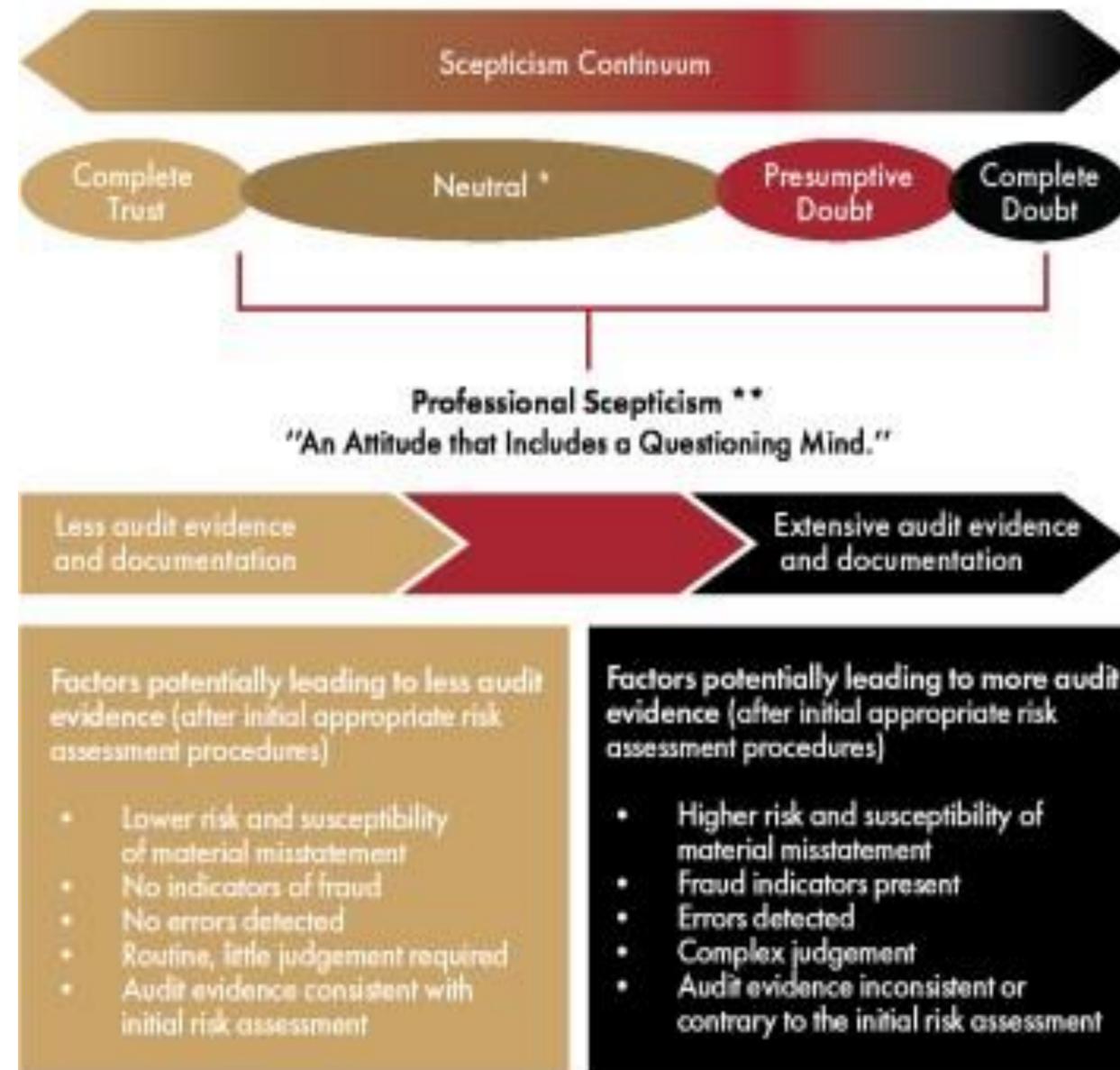


Image Source: Professors Daug Prawitt and Steve Glover, Brigham Young University

- \* Neutral – Neither assuming management dishonesty nor unquestioned honesty
- \*\* Professional Scepticism does not include the area of the continuum depicted by complete trust; in the area depicted as complete doubt, the auditor will move to a forensic mindset.

# Key Themes *(continued)*

3. The auditor's responsibilities to identify, assess and respond to the risks of material misstatement due to fraud
  - Fraud discussions among engagement team members
  - Making inquiries of management and others within the entity
  - Identification and assessment of risks of material misstatement due to fraud
  - Presumed risk of fraud in revenue recognition
4. The use of forensic experts during fraud discussions, fraud inquiries and the execution of the audit, when specific factors are identified
  - Knowledge, skill and ability required of auditors

➤ ***Refer to Source Document pages 4 to 33***

# Key Themes *(continued)*

5. Responding to the assessed risks of material misstatement due to fraud (other than those relating to management override of controls)
  - Guidance for auditors in responding to risks of material misstatement due to fraud
6. Management override of controls
7. The auditor's considerations to respond to identified risks of material misstatement due to fraud, when there is a fraud investigation in progress
8. The auditor's responsibilities relating to fraud in engagements other than in an audit of financial statements
9. The auditor's reporting responsibilities when a fraud is discovered

➤ ***Refer to Source Document pages 4 to 33***

# MODULE 4

# APPENDICES

# Appendices

The following items are dealt with here:

1. Appendix A – The Evolving Environment around the Auditor’s Considerations relating to Fraud
  - *Wish-list of Future projects and expectations*
2. Appendix B – Forensic Interview Techniques

# Forensic Interview Techniques

**The purpose of this appendix is to provide an auditor with guidelines on how to approach interviews with executives, managers and other relevant employees at a client, with a view to clarify or uncover the root causes of irregularities (including fraud) uncovered during an engagement.**

- General principles relating to interviews
- What is interviewing?
- Preparation for an interview
- The interview
- Guidance for auditors
- After the interview

➤ ***Refer to Source Document pages 36 to 39***

# MODULE 5

# IRBA FRAUD WEBPAGE

# IRBA Fraud Webpage

The following Contents, Links & Overviews are available and set out here:

1. SAICA Frequently Asked Questions: Application of the requirements of the International Standards on Auditing in relation to matters arising from monitoring findings and other in-practice challenges – The presumption of risks of fraud in revenue recognition (page 4)
2. Transparency International: Corruption Perceptions Index
3. Association of Certified Fraud Examiners (ACFE): Fraud Resources
4. Institute of Commercial Forensic Practitioners (ICFP): Industry Research
5. AICPA Frequently Asked Questions: Audit Matters and Auditor Reporting Issues Related to COVID-19 – Fraud Inquiries (page 12)
6. Center for Audit Quality (CAQ): Managing Fraud Risk, Culture, and Skepticism During COVID-19

➤ *Refer to Webinar Material for detail*

# QUESTIONS?



# Formal Q&A Session

We will now take a **quick comfort break** before we discuss some questions received during the webinar.

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**Thank you for your  
participation!**

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