

Fraud

May 9, 2024

This document was developed by the staff of the Office of the Chief Auditor to foster discussion among the members of the Standards and Emerging Issues Advisory Group (SEIAG) at the May 9, 2024 meeting. It is not a statement of the Board, nor does it necessarily reflect the views of the Board, any individual Board member, or PCAOB staff.

INTRODUCTION TO BREAKOUT GROUP DISCUSSIONS

- We will have three breakout groups. SEIAG member assignments can be found in the meeting handouts
- Breakout discussions will focus on potential improvements to:
 - Identifying fraud and indicators of fraud (e.g., red flags such as contradictory evidence); and
 - Communicating about fraud with the audit committee and in the audit report
- Each breakout group will address both topics
- The discussion will also be informed by the morning panel presentations

BREAKOUT QUESTIONS – IDENTIFYING FRAUD AND INDICATORS OF FRAUD

1. Would describing the auditor's role in the auditing standards (e.g., as a gatekeeper to the capital markets) better focus auditors on understanding and discharging their responsibilities with respect to fraud? If so, how would you describe this role?
2. Are there potential improvements to performing fraud identification procedures that can better position the auditor to avoid only seeking information that corroborates, but does not contradict, management's assertions? What could promote a deliberative and thoughtful mindset as opposed to a checklist mentality by auditors?
3. What changes to the definition of fraud could help auditors in better understanding their responsibilities regarding the consideration of fraud when performing a financial statement or ICFR audit? Would using fraud models other than the fraud triangle (e.g., fraud diamond, fraud pentagon) assist auditors in identifying and responding to fraud risks?
4. What improvements should the PCAOB consider to enhance the audit planning and risk assessment procedures, including analytical procedures and responding to red flags, in order to better identify fraud?
5. Are there specific procedures designed to detect fraud concealed through collusion or other means that the auditor should be required to perform, and if so, what are they? Would these procedures be consistent with reasonable assurance?

BREAKOUT QUESTIONS – COMMUNICATING ABOUT FRAUD

1. Do existing auditing standards provide for effective two-way communication between the auditor and audit committee regarding fraud? If not, what could be improved?
2. Should the auditor communicate additional information about fraud in the auditor's report, and if so, what additional information should be included and how should it be reported?
3. What are your views on the potential benefits, costs and potential unintended consequences associated with additional auditor reporting?