

How can fraud detection be enhanced through standard setting and other means?

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Question 1: What existing or new standards could be enhanced/created to increase the auditors' focus on fraud detection?

Principal concerns

- In some cases, auditors do not seem to have a sufficiently clear understanding of the client's business operations at a more granular level and how fraud may occur in the business context
- There may be insufficient transparency in the audit report about fraud risks and how the auditor addressed them.
- Existing standards about risks of misstatement do not seem to emphasize fraud risk sufficiently

Question 2: What procedures could be enhanced to expand the auditor's focus on fraud?

Principal concerns

- Current practice for inquiry procedures result in mechanical discussions of whether board/management knows of any fraud.
- Current timing of fraud discussion with the audit committee may be insufficient and too late in some circumstances
- Auditors seems to lack of awareness of the company's fraud risks, one good way to enhance this is for an enhanced review of the client's whistleblowing activities/reports
- In some cases, auditors may not pay sufficient attention to fraud risks at the executive level

Question 3: How can auditor attention to matters that may intentionally be omitted from the financial Statements and supplementary data (Item 8) be enhanced?

Principal concerns

- The auditors may not be spending enough time or effort considering what is not disclosed. Lack of disclosure may ultimately be a highly damaging form of fraud.

Question 4: What other actions can the PCAOB take with respect to enhancing fraud detection?

Principal concerns

- Whistleblowing is a major way to detect fraud and some auditors may not feel free to report it in house (within audit firm), so a rewards based and anonymous program to take in fraud reports could be more effective than the current program
- The PCAOB may need resources beyond a dedicated project team to stay on top of fraud detection and how it evolves
- The PCAOB may be observing some valuable insights about fraud through its inspection work but could possibly improve its communication of these findings to the market