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| --- | --- | --- |
| **Client:** | **${client}** | |
| **Period end date:** | **${start} - ${end}** | |
| **Ref. no.:** |  | |
| **Prepared by:** | ${user} | **Date:** |
| **Approved by Manager:** | ${manager} | **Date:** |
| **Approved by Partner:** | ${partner} | **Date:** |

# **Fraud Discussion Minutes**

Date of meeting:

*[text]*

Venue:

*[text]*

Attendees (name and role):

* *[text]*
* *[text]*
* *[text]*

Discussion:

|  |  |  |
| --- | --- | --- |
| **S. no.** | **Agenda item** | **Minutes/Results of discussion** |
| 1 | An exchange of ideas among engagement team members about how and where they believe the entity’s financial statements (including the individual statements and the disclosures) may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated. | It was agreed that the information to assess the risk of material misstatement due to fraud will be gathered by conducting management inquiries, analytical procedures and maintaining professional skepticism throughout the audit to identify fraud risk factors arising in all the areas.  The engagement partner discussed matters relating to susceptibility of the entity’s financial statements to material misstatements, due to fraud or error.  Then, a brief discussion was held amongst the team members regarding their understanding pertaining to fraud.  The engagement team exchanged ideas about how and where the entity’s financial statements may be susceptible to material misstatement due to fraud and how management could commit and conceal fraud and considered known internal and external fraud risk factors. |
| 2 | A consideration of the known external and internal factors affecting the entity that may create an incentive or pressure for management or others to commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables management or others to rationalize committing fraud. | The team job in charge continued the discussion by focusing on fraud risk triangle and explained what each component of the triangle represents:  • Opportunity  • Pressure  • Rationalization  The team job in charge emphasized that the team members should keep an eye open for any unusual transactions or changes in the components of fraud risk triangle and discussed possible risk factors such as excessive pressure on management to meet third party expectations, inadequate internal control over assets and so on. |
| 3 | A consideration of any unusual or unexplained changes in behavior or lifestyle of management or employees which have come to the attention of the engagement team. | The engagement team informed that no unusual or unexplained changes in behavior or lifestyles of management or employees have been observed, however was advised to remain alert throughout the audit for any such instances. |
| 4 | A consideration of circumstances that might be indicative of earnings management and the practices that might be followed by management to manage earnings that could lead to fraudulent financial reporting. | The team manager also added to the discussion by stressing on remaining alert to circumstances that might be indicative of earnings management and practices to manage earnings leading to fraud. |
| 5 | A consideration of the risk that management may attempt to present disclosures in a manner that may obscure a proper understanding of the matters disclosed (for example, by including too much immaterial information or by using unclear or ambiguous language). | Risk of fraudulent financial reporting was also discussed. |
| 6 | A consideration of management’s involvement in overseeing employees with access to cash or other assets susceptible to misappropriation. | Furthermore, management’s involvement, if any, in overseeing employees with access to cash or other assets susceptible to misappropriation was also discussed. |
| 7 | A consideration of the risk of management override of controls. | The engagement partner also emphasized that the team should consider fraud risk indicators during the course of audit as a significant risk of management override of controls always exist in an audit engagement and explained that the risk of material misstatement due to management override of controls has a pervasive impact and has to be mitigated through:   * Journal entry testing; * Reviewing accounting estimates for biases and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud; * Evaluating the business rationale (or the lack there of) for significant unusual transactions to determine whether they may have entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets; and * Other procedures where considered appropriate. |
| 8 | Presumption of risk of improper revenue recognition | The engagement team members discussed their understanding of ISA 240 and explained that there is a presumed significant risk of misstatement due to fraud in revenue recognition. And that the team should identify any susceptibility of fraud based on knowledge of management integrity, honesty and competence and internal controls/policies and procedures, to prevent, or detect and correct fraud and error; or document rationale for rebutting the said presumption.  The engagement team, where applicable, planned to perform specific audit procedures to identify and respond to the aforesaid risk of fraudulent financial reporting in revenue recognition. |
| 9 | A consideration of the types of circumstances that, if encountered, might indicate the possibility of fraud. | Engagement team exchanged views on different types of circumstances that might indicate possibility of fraud, including discrepancies in the accounting records such as unsupported or unauthorized balances or transactions; conflicting or missing evidence such as missing documents and missing inventory or physical assets of significant magnitude; tolerance of violations of the entity’s code of conduct and so on. |
| 10 | A consideration of any allegations of fraud that have come to the auditor’s attention. | The engagement team discussed that no allegations of fraud have come to our attention along with the fact that there were no fraud risk factors identified at A&C stage. |
| 11 | An emphasis on the importance of maintaining a proper state of mind throughout the audit regarding the potential for material misstatement due to fraud. | The engagement partner also mentioned that historically there has been no proven instance of fraud or error identified in prior periods. Therefore, probability of a proven fraud identified is low. Nonetheless, he reemphasized that the team should exercise professional skepticism throughout the audit. |
| 12 | A consideration of how an element of unpredictability will be incorporated into the nature, timing and extent of the audit procedures to be performed. | The team manager explained to the team members various Financial Statement Line items and how each of them can be prone to fraud or error. He further advised the team of various procedures that can be performed against each FAS Line item to address such risk of fraud or error for instance; inspection of vouchers /invoices /cheques /other supporting documents etc. relating to immaterial transactions. He added that meetings should be conducted with non-financial personnel as well to incorporate unpredictability.  The team job in charge advised that in order to more effectively cater the risk of material misstatement due to fraud or error, element of unpredictability needs to be incorporated in the test of details. |
| 13 | A consideration of the audit procedures that might be selected to respond to the susceptibility of the entity’s financial statement to material misstatement due to fraud and whether certain types of audit procedures are more effective than others. | The team manager stressed on the consideration of above risks while designing and performing audit procedures and discussed possible specific responses such as performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods; conducting inventory counts at or near the end of the reporting period to minimize the risk of inappropriate manipulation during the period between the count and the end of the reporting period; counting cash at or near year-end and so on. |
| 14 | Matters to be communicated to those, if any, not present during the meeting | Minutes were agreed to be circulated to the team members who were not present at the meeting. |
| 15 | Other matters | There being no other matters to discuss, the meeting concluded. |