Fraud thematic review

The results of our fraud thematic reviews suggest that auditors could do more to enhance the quality of their fraud risk identification and assessments. Performing a high-quality fraud identification and assessment is critical to fulfilling the auditor’s responsibilities with respect to detecting fraud in audits of financial statements.

Introduction

The Canadian Public Accountability Board (CPAB) is Canada’s independent, public company audit regulator. Charged with overseeing audits performed by registered public accounting firms, CPAB contributes to public confidence in the integrity of financial reporting and is committed to protecting Canada’s investing public.

CPAB performed fraud thematic reviews in 2019 and 2021 to evaluate the quality of fraud-related procedures in audits of financial statements of public companies. The fraud thematic reviews also provided insights into how the international auditing standard that deals with an auditor’s responsibilities relating to fraud could be strengthened, enhanced and clarified in the public interest (Exhibit 1).

This report is organized in three parts. First, we summarize our key takeaways for auditors. Second, we provide a detailed review of the results of our 2021 fraud thematic review. We conclude with two case studies, each adapted from examples observed in our inspections of audits, where auditors did not exercise an appropriate level of professional skepticism. We use these case studies to highlight some lessons learned for auditors.

Exhibit 1

Fraud auditing standard is under revision

In December 2021, the International Auditing and Assurance Standards Board (IAASB) approved a project proposal that describes the revisions that are being considered to the International Standard on Auditing (ISA) 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements.

CPAB is actively engaged with the IAASB and the Canadian Auditing and Assurance Standards Board (AASB) as they work toward revising ISA 240 and CAS 240¹, respectively.

¹In Canada, the AASB adopts the ISAs as Canadian Auditing Standards (CAS). As such, the AASB has a project to revise CAS 240 that mirrors the work being performed by the IAASB.
PART 1  KEY TAKEAWAYS FOR AUDITORS

The following are the key recommendations described in this report:

1. Determine whether specialized skills are needed, including forensic skills, to perform a high-quality fraud risk identification and assessment.

2. Enhance the quality of your fraud risk identification and assessment by obtaining an understanding of:
   • The entity’s fraud risk management program, including its whistleblower program.
   • Management’s compensation arrangement and analysts’ expectations.

3. Improve the quality of your fraud brainstorming meetings by involving specialists engaged in the audit.

4. Perform in-person fraud inquiries of management, the audit committee and others at the entity to enhance the quality of those discussions.

5. Don’t lose sight of financial reporting fraud when identifying and assessing fraud risks because of the damage this type of fraud causes to entities and their stakeholders.

6. Maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist.

PART 2  FRAUD THEMATIC REVIEW RESULTS

CPAB’s 2021 fraud thematic review was integrated into our regular inspections of 116 audit files at audit firms we inspect annually. The fraud thematic review involved a deeper dive into the quality of work performed by auditors to identify, assess and respond to fraud risks.

Part 2 includes:

• The results of our 2021 fraud thematic review.
• Our assessment of why the procedures we recommend in our 2019 fraud thematic review report (Exhibit 2) enhance the quality of auditors’ fraud risk identification and assessments.
• Additional insights learned from our 2021 thematic review of audits of entities impacted by the COVID-19 pandemic.

Before we start, a useful reminder is that an overall objective of the auditor when conducting an audit of financial statements is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement due to fraud.

Exhibit 2

Procedures recommended in our 2019 fraud thematic review report

1. Determine whether to engage forensic specialists.
2. Perform procedures on the entity’s whistleblower program.
3. Obtain an understanding of the entity’s fraud risk management program.
4. Obtain an understanding of management’s compensation arrangements and analysts’ expectations.
5. Invite specialists already engaged on audits to fraud brainstorming meetings.

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. There are currently 11 firms in this group.

ISA 200, Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing, paragraph 11.
1. Determine whether to engage forensic specialists

Auditors engaged forensic specialists in six per cent of the audits we inspected in 2021 (five per cent in 2019).

Auditors are typically engaging forensic specialists when they encounter fraud or suspected fraud in their audits. Where forensic specialists were involved in the audits we inspected, they helped auditors determine how pervasive the effect of a fraud or suspected fraud was and design an audit approach to respond to the matter.

However, except as described in Exhibit 3, we did not see forensic specialists engaged in audits to help auditors identify and assess fraud risks. Like other areas of the audit that sometimes require specialized skills (e.g., valuations, tax, information technology, etc.), performing a high-quality fraud risk identification and assessment may also require specialized skills, including forensic skills. Neglecting to engage forensic specialists when warranted may allow material frauds, which the public might reasonably expect auditors to detect, to remain concealed.

The engagement partner should determine, based on an assessment of the collective competence and capabilities of the engagement team (and specialists already engaged on the audit), whether additional specialized resources are needed to perform a high-quality fraud risk identification and assessment (Exhibit 4). Assurance practice leaders also have a role to play in ensuring the right people are assigned to audits. For example, assurance leaders may establish policies or procedures that describe the factors engagement partners should consider when evaluating the competence and capabilities of their engagement teams to perform fraud risk identification and assessments. Factors to consider include:

- The complexity of the entity’s information system, business model and operations (including a consideration of where the entity is operating globally), and of its transactions.
- The effectiveness of the entity’s fraud risk management program, including its whistleblower program.
- Whether management has created and maintained a culture of honesty and ethical behaviour.

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Exhibit 3

Initiatives at audit firms involving the use of forensic specialists

Two firms conducted pilot projects in 2020 and 2021, respectively, in which they assigned forensic specialists to a sample of their audit engagements. The specialists helped auditors perform fraud risk identification and assessments, participated in fraud inquiries of management, and helped auditors design procedures to respond to assessed fraud risks.

Another firm now requires engaging forensic specialists when specified criteria are met, including a requirement to engage forensic specialists on the firm’s riskiest audit engagements.

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4 International Standard on Quality Management 1 (ISQM 1), Quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements, paragraphs 32(d) and A96.

5 When obtaining an understanding of the entity’s system of internal controls, auditors are required to evaluate whether management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour (ISA 315, paragraph 21(b)).
Sophisticated fraud schemes can occur when complex entities do not have robust fraud risk management programs, including cultures that promote honesty and ethical behaviour. Based on a consideration of these factors, the engagement partner may determine that a forensic specialist should be engaged to help the engagement team identify, assess and respond to fraud risks.

A study by the Association of Certified Fraud Examiners (ACFE)\(^8\) found that 42 per cent of frauds reported by entities from around the world were detected through tips, with more than half of those tips coming from employees. According to ACFE, not only were tips the most common method for detecting fraud, but tips also led to the identification of nearly three times as many instances of fraud as the next-most-common fraud detection method (i.e., detection by internal auditors).

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\(^6\) ISA 220 (Revised), Quality management for an audit of financial statements, paragraphs 25-28.
\(^7\) Refer to paragraph 25.A.3 in the ISA 240 project proposal.
\(^8\) Refer to page 21 of ACFE’s: A Report to the Nations (2022).
With so many frauds being detected through tips to whistleblower programs, the overall quality of auditors’ fraud risk identification and assessments would be enhanced if auditors included procedures on entities’ whistleblower programs. Procedures could include:

- Obtaining an understanding of the effectiveness of the company’s whistleblower program, including the program’s reporting mechanisms (e.g., telephone hotline, online forms, in-person reporting, etc.), who is accountable for receiving the tips, and the evaluation framework used by the entity to either dispose of a tip or to progress it along for further investigation. The lack of a whistleblower program, or an ineffective one, may be indicative of weaknesses in the entity’s control environment.

- Following up on tips that are under investigation by the entity. These tips may be indicative of suspected fraud with financial reporting implications which the auditor will need to respond to during the audit.

3. Obtain an understanding of the entity’s fraud risk management program

Auditors obtained an understanding of some aspects of the entities’ fraud risk management programs in 80 per cent of audits inspected in 2021 (50 per cent in 2019).

The understanding that an auditor obtains about how an entity is managing its fraud risks is a critically important input into the auditor’s own identification and assessment of fraud risks. Weaknesses in the entity’s fraud risk management program, including deficiencies in the entity’s anti-fraud controls, contribute to risks of material misstatement in the financial statements due to fraud.

Although 80 per cent of auditors obtained an understanding of some elements of fraud risk management programs (including whistleblower programs), in many cases that understanding was superficial. Specifically, it was not sufficient to identify weaknesses in entities’ fraud risk management programs.

How entities manage their fraud risk exposures varies according to their unique circumstances and fraud-risk profiles. Based on what CPAB is seeing in our inspections of audits, even less complex entities have fraud risk identification and assessment processes, albeit less formalized ones, and entity-level anti-fraud controls. More complex entities tend to have more sophisticated fraud risk management programs that are better integrated into their systems of internal control (Exhibit 5).

Auditors are typically obtaining an understanding of fraud risk management programs through their fraud inquiries of management. However, auditors should also be applying a fraud lens to the understanding they obtain about the entity and its environment and the entity’s five components of internal control. That provides auditors with a more comprehensive understanding of how entities are managing their fraud risks which, in turn, enhances the quality of auditors’ own fraud risk identification.

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9 According to ACFE in A Report to the Nations (2022) (p. 42), the primary internal control weaknesses that contributed to occupational fraud were as follows: 29 per cent - lack of internal controls, 20 per cent - override of existing internal controls, 16 per cent - lack of management review, and 10 per cent - poor tone at the top.

10 ISA 240, paragraph 18(a)-(d).

11 At the time of writing, the IAASB’s Fraud Task Force was in the final stages of publishing non-authoritative guidance that describes how ISA 240 interacts with other standards. Among other things, the guidance emphasizes the importance of auditors applying a fraud lens when obtaining the understanding required by ISA 315 of the entity, and its environment and the entity’s system of internal control.
and assessments. For example, by applying a fraud lens when understanding the entity’s control environment, the auditor may learn that management has not created and maintained a culture of honesty and ethical behaviour. This finding should impact an auditor’s identification and assessment of fraud risks at the financial statement level and, in some cases, fraud risks at the assertion level.

Mapping the elements of a fraud risk management program to an entity’s system of internal control

<table>
<thead>
<tr>
<th>Components of internal control</th>
<th>Elements of a fraud risk management program</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Control environment</td>
<td>Management, with the oversight of the audit committee, create and maintain a culture of honesty and ethical behaviour.</td>
</tr>
<tr>
<td>2. Risk assessment process</td>
<td>Entity performs periodic fraud risk assessments to identify instances of fraud and suspected fraud.</td>
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<tr>
<td>3. Monitoring</td>
<td>Entity monitors fraud mitigation processes in each component of internal control, including the operating effectiveness of anti-fraud controls, and remedies control deficiencies as necessary.</td>
</tr>
<tr>
<td>4. Information system and communication</td>
<td>Entity implements a communication process to obtain information about fraud (e.g., whistleblower program) and to investigate instances of suspected fraud.</td>
</tr>
<tr>
<td>5. Control activities</td>
<td>Entity designs and implements preventative and detective anti-fraud controls.</td>
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</tbody>
</table>

Auditors are required to obtain an understanding of an entity’s system of internal control including each of the entity’s five components of internal control (ISA 315, paragraphs 21-26).
4. Obtain an understanding of management’s compensation arrangements and analysts’ expectations

Some auditors are not documenting their understanding of management’s compensation arrangements and analysts’ expectations.

Understanding how management is compensated and the expectations of analysts helps auditors identify fraud risk factors (Exhibit 6). However, some audit firms do not require that understanding to be documented in audit files\(^{13}\) and CPAB was therefore unable to assess the overall quality of this audit work across the audits we inspected in our fraud thematic reviews.

At a roundtable of institutional investors that CPAB hosted in 2020, participants commented that financial reporting frauds tend to cluster around an entity’s key performance metrics because meeting those metrics often impacts management’s compensation. We take this opportunity to emphasize that a robust evaluation of fraud risk factors, including the understanding that auditors obtain of management's compensation arrangements and analysts' expectations, is a critical element of any fraud risk identification and assessment. Furthermore, those evaluations should be documented in audit files to allow engagement partners to appropriately supervise that work\(^{14}\).

The following are examples of fraud risk factors that auditors may identify when obtaining an understanding of compensation arrangements and analysts’ expectations:

• **Understanding management’s compensation arrangements** – Auditors may learn that management has a strong incentive to manipulate financial results because a significant proportion of their compensation package (e.g., bonuses, stock options, etc.) is contingent on achieving aggressive financial targets. A critical evaluation of this fraud risk factor may lead the auditor to conclude that there is a fraud risk associated with several accounting estimates because the measurement uncertainty associated with developing those estimates makes them easier to manipulate and the manipulation harder to detect.

• **Understanding analysts’ expectations** – Auditors may learn that analysts have unduly aggressive or unrealistic expectations about an entity’s financial performance by listening to the entity’s earnings calls with analysts or by reading analysts’ research reports. Auditors may also learn about management’s attitudes regarding those expectations based on how management interacts with analysts. Aggressive expectations by analysts that are met by commitments by management to meet those expectations may be indicative of pressures and rationalizations for management to manipulate key performance metrics. A critical evaluation of those fraud risk factors may lead auditors to conclude that the financial statement accounts included in the calculation of key performance metrics may be at an increased risk of material misstatement due to fraud.

\(^{13}\)ISA 240, paragraph 44 do not prescribe that auditors document the fraud risk factors they identified and evaluated as part of their fraud risk identification and assessments and often the information reviewed by auditors to identify fraud risk factors (e.g., management compensation arrangements and analysts’ expectations) is also not documented in audit files.

\(^{14}\)In CPAB’s response to the IAASB’s Discussion Paper: Fraud and Going Concern in an Audit of Financial Statements, we urged the IAASB to introduce a requirement in ISA 240 for auditors to document the fraud risk factors they identify and evaluate to inform their fraud risk identification and assessments.
5. Invite specialists already engaged on audits to fraud brainstorming meetings

Specialists engaged on audits attended the engagement team’s fraud brainstorming meeting in 55 percent of the audits inspected in 2021 (66 per cent in 2019).

As described in our 2019 fraud thematic review report, specialists already engaged in audits are key members of the extended engagement team. Because those specialists are typically involved in complex areas of the audit that are particularly susceptible to fraud, encouraging those specialists to participate in the engagement team’s fraud brainstorming meetings (Exhibit 7) will elevate the quality of the discussions. When fraud risks are identified that impact an area of the audit that involves the use of specialists, auditors should also work closely with those specialists to design an integrated approach for responding to the assessed fraud risks.

Many audit firms require engagement teams to invite specialists already engaged on their audits to attend their fraud brainstorming meetings. Auditors should take steps to increase the attendance rate of those specialists at their fraud brainstorming meetings.

6. Some additional insights learned from our 2021 thematic review

The audits that we inspected in 2021 involved many entities that had been adversely impacted by COVID-19.

In a global COVID-19 benchmarking survey\(^6\) carried out by ACFE in 2020, 79 per cent of respondents observed an increase in the overall level of fraud at their entities compared to pre-pandemic levels. While that figure includes various types of fraud, 46 per cent of respondents had also observed an increase in financial statement fraud.

The disruption prompted many entities to change their business models and business processes. This caused business risks to become misaligned with internal controls at some entities. Deficiencies in internal controls create opportunities for frauds to be perpetrated against entities. The general hardship caused by the pandemic also gave rise to new pressures and rationalizations for fraud to occur. CPAB identified significant inspections findings where auditors failed to recognize or appropriately respond to changes to entities’ fraud risk profiles that resulted from the disruption.

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\(^6\) The discussion among the engagement team described in paragraph 15 of ISA 240 is often referred to as the fraud brainstorming meeting.

The following are some additional insights for auditors that emerged from our 2021 thematic review:

• **Carry out your fraud inquiries in person.**

We believe that fraud inquiries (of management, the audit committee and others at the entity including internal auditors, legal counsel, etc.) should not be carried out by email or audio call. In the audits we inspected in 2021, 25 per cent had fraud inquiries carried out by email (nine per cent) or audio call (16 per cent).

The reliability of information obtained through fraud inquiries is enhanced significantly when those inquiries are made in person. Doing so allows auditors to observe the body language of interviewees which is important because interviewees with knowledge of fraudulent schemes may exhibit signs of discomfort during interviews. In-person interviews also allow auditors to have a less scripted, and therefore less predictable, two-way dialogue with interviewees as auditors obtain answers to follow-up questions in real-time.

When in-person interviews are not possible, carrying out fraud inquiries by video conference may be reasonable if planned and managed appropriately.

• **Don’t lose sight of financial reporting fraud when identifying and assessing fraud risks.**

We observed in some audits a disproportionately big focus on asset misappropriation schemes in auditors’ fraud risk identification and assessments and not enough of a focus on fraudulent financial reporting schemes. That could be due to a reluctance to question the integrity of management because fraudulent financial reporting often involves the actions of management (while asset misappropriation is often perpetrated by employees).

According to ACFE’s 2022 study\(^\text{17}\), although frauds related to misappropriation of assets are a lot more common than fraudulent financial reporting, the losses sustained are significantly smaller. The study found that asset misappropriation schemes represented 86 per cent of fraud cases with a median loss per case of USD $100,000 while fraudulent financial reporting schemes only represented nine per cent of fraud cases but had a median loss per case of USD $593,000.

Auditors cannot lose sight of fraudulent financial reporting risks in their fraud risk identifications and assessments because of the outsized losses these types of frauds tend to have on entities and their stakeholders.

\(^{17}\text{Refer to page 11 of ACFE’s: A Report to the Nations (2022).}\)
PART 3  CASE STUDIES ON PROFESSIONAL SKEPTICISM

Part 3 includes two case studies where auditors did not exercise an appropriate level of professional skepticism. The case studies were adapted from examples observed in audits of entities with heightened risks of fraud associated with revenue recognition. We use the case studies to highlight some important lessons learned for auditors.

The first case study deals with auditors not appropriately assessing a fraud risk while the second deals with auditors not appropriately responding to an assessed fraud risk.

⚠️ The facts described in each case study, including descriptions of procedures performed (or not performed), have been altered to protect the anonymity of the parties involved.
1. Case facts
• The entity supplies vehicle parts to automobile manufacturers.
• The entity had been growing rapidly and that attracted more coverage of its stock by equity analysts.

2. Engagement team’s conclusions
Fraud risk factors identified
• The engagement team identified that equity analysts were valuing the entity’s stock based on aggressive year-over-year revenue growth targets and that a significant proportion of management’s remuneration was contingent on the stock’s performance.

Identified and assessed fraud risks
• The engagement team determined that although there were pressures on management to meet analysts’ expectations, management did not have the opportunity to inflate revenues recognized. The entity recognizes revenue when parts are delivered to customers (i.e., product deliveries satisfy the entity’s performance obligations). However, because the engagement team assumed that tampering of delivery dates would be readily detected by the entity’s control activities, they concluded that revenue recognition for the entity was not susceptible to fraud risks.

Procedures performed to respond to assessed risks
• The engagement team adopted a substantive approach (i.e., did not rely on internal controls) to respond to assertion-level risks arising from possible errors in revenue recognized during the period.
• For a sample of sales transactions, the engagement team reviewed sales agreements to identify unusual terms. They also matched details in that sample of sales transactions to shipping documents, billing invoices and customer payments to identify exceptions that could be indicative of errors in revenue recognition.

3. Analysis
Risk identification and assessment
The engagement team did not have a persuasive argument to support their rebuttal of the presumption that there are fraud risks associated with revenue recognized by the entity during the reporting period.

Generally, a rebuttal of the fraud risk presumption in revenue recognition is reasonable when an entity has relatively simple revenue streams and no related assertion-level fraud risks, before considering the entity’s controls. However, the engagement team assumed (i.e., without any testing) that controls at the entity would detect fraudulent financial reporting schemes to inflate revenues. Controls are not considered when rebutting the fraud risk presumption in revenue recognition because controls are susceptible to being overridden by management.

Finally, the engagement team failed to revisit their fraud risk assessment when they identified unusual and complex bill-and-hold arrangements while performing their substantive tests.

Responses to assessed risks
The engagement team’s failure to appropriately identify and assess fraud risks also meant that the substantive evidence obtained was not sufficient or appropriate.

Although the engagement team identified that the entity had entered into bill-and-hold transactions with several customers in the last quarter of the reporting period, the evidence obtained was not sufficient to support the engagement team’s conclusions that revenue had been appropriately recognized during the reporting period.

Bill-and-hold transactions are very complex, as are the related accounting requirements. The engagement team did not consult with the firm’s technical accounting leaders for help in determining whether the transactions had commercial substance or, alternatively, whether they were entered into to fraudulently shift revenues to the reporting period.

4. Lessons learned
☑ Identified fraud risk factors need to be carefully evaluated by more senior members of the engagement team because they could be indicative of the existence of fraud.
☑ Controls should not be considered when determining whether to rebut the fraud risk presumption in revenue recognition.
☑ Fraud risk identification and assessment is an iterative and dynamic process that happens throughout the audit. Upon identifying the bill-and-hold transactions, the auditors should have identified and assessed fraud risks associated with the occurrence of revenue.
☑ The engagement team should have consulted with the firm’s technical accounting leaders for help in determining whether the bill-and-hold transactions had commercial substance.

18 ISA 240 requires auditors to presume that there are risks of fraud in revenue recognition, and to evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Auditors can, however, rebut that presumption for simple revenue streams (ISA 240, paragraph A31).
19 ISA 315 (Revised), paragraph 7.
1. **Case facts**
   - The entity is engaged in fixed-price construction projects for its customers which take years to complete.
   - The entity transfers control of each asset under construction over time and recognizes revenue for each project at the financial reporting date based on an estimate of each project’s stage of completion (i.e., percentage-of-completion method) determined on the basis of costs incurred as follows:

   \[
   \text{Revenue recognized} = \left( \frac{\text{Cost incurred to date}}{\text{Estimated total cost}} \right) \times \text{Contract price} - \text{Revenue previously recognized}
   \]

2. **Engagement team’s conclusions**
   - **Fraud risk factors identified**
     - The engagement team identified that the entity had experienced declining margins on its construction projects and severe staffing shortages as a result of the pandemic. The engagement team determined that management was under significant pressure to show an improvement in the entity’s operating results.
   - **Identified and assessed fraud risks**
     - Based on their evaluation of fraud risk factors and the elevated measurement uncertainty associated with estimating remaining costs-to-complete on uncompleted projects (i.e., open projects), the engagement team assessed a fraud risk associated with the costs-to-complete estimate. Specifically, understating costs-to-complete would allow management to overstate revenue recognized during the year for open projects.
   - **Procedures performed to respond to the assessed fraud risk**
     - Adopted a combined audit approach (i.e., relied on internal controls) to respond to the assessed fraud risk.
     - No retrospective review was performed to determine how accurate management had been in the past in forecasting/approving the costs-to-complete estimates.
     - Relied on one key control, a monthly contract review meeting attended by senior management, designed to review: the status of the entity’s open projects, risks to complete open projects and estimates of remaining costs-to-complete open projects.
     - Performed substantive procedures that focused on corroborating costs included in forecasts of costs-to-complete estimates but not on identifying costs that had been inappropriately excluded from costs-to-complete estimates.

3. **Analysis**
   - **Risk identification and assessment**
     - The engagement team’s evaluation of fraud risk factors and their assessed fraud risk was reasonable. However, the engagement team did not exercise an appropriate level of professional skepticism when designing further audit procedures (e.g., tests of controls and substantive tests) to respond to the assessed fraud risk.
     - A retrospective review was not performed to determine how accurate management had been historically at forecasting remaining costs-to-complete on open projects. A retrospective review might have revealed that management understated these estimates in the past and provided insight about how the understatement was carried out (e.g., directives by management to project leaders to record adjusting entries to project sub-ledgers). If applicable, that understanding would have helped the engagement team design a more targeted audit approach to address the assessed fraud risk.
   - **Responses to assessed risks**
     - Tests of operating effectiveness of the contract review meeting control involved inspecting meeting minutes. However, the minutes only described action items discussed at the meetings (e.g., decrease remaining costs-to-complete for project ABC by 10 per cent) and not the detailed considerations that led to the proposed actions. Furthermore, the engagement team did not consider whether the control was sufficiently responsive to the assessed fraud risk given that the contract review meeting is attended by management with the authority to propose fraudulent adjustments to costs-to-complete estimates.
     - Finally, the substantive procedures did not address the fraud risk because they were not designed to identify costs that should have been included in costs-to-complete estimates but inappropriately excluded by management (and the project leaders).

4. **Lessons learned**
   - A stand-back evaluation, after all the evidence was accumulated, could have alerted the engagement team that the fraud risk had not been appropriately addressed by the procedures performed.
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An objective of this publication is to serve as the foundation for ongoing discussions with audit firms, auditing standard setters and other regulators.

We would like to hear from you. Please send your comments or questions to thoughtleadership@cpab-ccrc.ca.