

# **Wisconsin Department of Public Instruction, Financial Services Team WISCONSIN PUBLIC SCHOOL DISTRICT AUDIT MANUAL**

## ***Consideration of Fraud in a Financial Statement Audit***

### ***AU-C Section 240/GAS 2011 Revision/AICPA Audit Guide***

The implementation of AU-C Section 240 requires the auditor to not only specifically identify and assess the risks of fraud that may result in material misstatement of financial statements due to fraud, but to respond to those risks while gathering audit evidence.

The AICPA Audit Guide Government Auditing Standards and Single Audits paragraph 6.45 requires the auditor to also assess the risk of material noncompliance with a major program's compliance requirements due to fraud in a single audit. The auditor should consider that assessment in designing the audit procedures to be performed.

Government Auditing Standards, 2011 Revision, extends the auditors responsibility to detecting material misstatements resulting from violations of contracts or grant agreements. Procedures should be performed if auditors become aware of abuse to ascertain the potential effect on the financial statements. Abuse does not necessarily involve fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements. When performing Government Auditing Standards financial audits, auditors should communicate the following in the report on internal control over financial reporting and compliance:

- 1)-significant deficiencies and material weaknesses in internal control
- 2)-instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance
- 3)-noncompliance with provisions of contracts or grant agreements that has a material effect on the audit
- 4)-abuse that has a material effect on the audit

AU-C Section 240 outlines the following fraud risk assessment process:

- Hold a discussion among engagement team members regarding the susceptibility of the district's financial statements to material misstatement due to fraud.
- Gather information
  - Inquiries of management, personnel, and the board of governance about the risks of fraud and how they have been addressed
  - Preliminary analytical procedures
  - Fraud risk factors
- Identify risks of material misstatement due to fraud
  - AU-C Section 240 has identified management override and improper revenue recognition as financial statement fraud risks always present.
- Assess identified controls
  - Consider mitigating controls

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- Consider management over-ride
- Consider nature, timing, extent of response to identified risks
  - Management over-ride
    - Examining journal entries
    - Accounting estimates
    - Unusual transactions

Auditors are required to include the following documentation regarding the risks of material misstatement due to fraud:

- Discussion among engagement team members regarding the risks of material misstatement due to fraud
- Procedures performed to gather information required to identify and assess fraud risks
- Fraud risk identified
- Response to fraud risks
- Response to risk of management override
- Additional risks or conditions requiring response
- Nature of communications about fraud
- Management representations