

CAG Meeting  
September 8-9, 2020  
Agenda Item F.1

# Fraud and Going Concern Project\_Update

SEPTEMBER 2020

# Fraud and Going Concern Status Update

## ▶ Complete:

- ▶ Collation of comments from other IAASB projects
- ▶ Coordination with NSS group
- ▶ Identification of key themes
- ▶ Developed plan forward
- ▶ Meetings held with UK and Japan to learn more about their separate fraud and going concern standards/projects
- ▶ August 11<sup>th</sup> Board call to discuss draft discussion paper covering expectation gap
- ▶ Fraud-specific technology roundtable

## ▶ In process:

- ▶ Academic desktop review
- ▶ Finalization of discussion paper covering expectation gap

## ▶ Planning commenced:

- ▶ Roundtable discussion about expectation gap - investors/analysts, preparers, those charged with governance (September 28)
- ▶ Roundtable covering fraud and going concern procedures for less complex entities (October 7)
- ▶ Working group brainstorming meetings in October (Fraud) and November (Going Concern)
- ▶ Coordination with others (e.g. IAASB workstreams, IESBA, etc) as needed



# Going Concern - Coordination with the IASB

- ▶ Close coordination with the IASB throughout the course of the going concern project.
- ▶ **Critical** point of collaboration.
- ▶ Certain stakeholder concerns around going concern may be best addressed by the IASB (i.e. changes to management's responsibilities).
- ▶ Some suggested changes to the audit standard may not be able to be made unless there are corresponding changes made to the accounting standard.

# Fraud - Major Themes Identified/Next Steps

#	Theme	Planned or Completed Action(s)
1	<b>Expectation gap</b> and clarification of the fundamental responsibilities of the auditor (see <i>next slide</i> )	<ul style="list-style-type: none"><li>• <b>Discussion paper</b> focused on expectation gap</li><li>• <b>Roundtable discussion</b> about expectation gap with investors, preparers, those charged with governance</li></ul>
2	<b>Technology</b>	<ul style="list-style-type: none"><li>• <b>Technology-focused fraud roundtable</b></li></ul>
3	Scope of procedures required for <b>less complex entities</b>	<ul style="list-style-type: none"><li>• Fraud-focused <b>roundtable</b> targeted towards auditors of LCEs</li></ul>
4	Comments <b>on inappropriate or inconsistent application</b> of certain concepts in ISA 240, including: <ul style="list-style-type: none"><li>• <b>Rebuttable presumption</b> of significant risk of fraud in revenue recognition</li><li>• Audit response to <b>management override of controls, including journal entry testing</b></li><li>• Additional <b>fraud risks</b> and integration of fraud risk in all aspects of the audit</li><li>• <b>Better linkage</b> to other ISAs</li><li>• Clarification of procedures required <b>when fraud is identified</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Working group brainstorm</b> to explore how the standard/application material might be clarified</li></ul>

# Expectation Gap – Detailed Themes Explored in Discussion Paper

## # Themes within the Expectation Gap

- 1 In today's environment, **are the current audit procedures in the auditing standards sufficient** to address the risk of fraud?
- 2 Identify if **expectation gap** can be narrowed with standard setting through the following considerations:
  - Enhanced **professional skepticism** requirements, including addition of '**stand back**' requirement
  - Enhanced **auditor reporting** requirements
  - Requirements to use **forensic audit specialists or other relevant specialists**
  - Consideration of **compliance with laws and regulations**
  - Specific requirements to address risk of **third-party fraud** (e.g. collusion with vendors)
  - Enhanced **quality control** requirements
  - Other **enhanced procedures/levels of evidence**, including procedures over **non-material fraud**
  - Addition of **conditional requirements** that, if triggered, require additional audit effort
  - Appetite for **new type of assurance** outside traditional financial reporting audit in relation to going concern
- 3 Consideration of **proportionality** (i.e. does the benefit to the public interest of any added requirements outweigh the cost?)

# Going Concern - Major Themes Identified/Next Steps

#	Theme	Planned or Completed Action(s)
1	<b>Expectation gap</b> and clarification of the fundamental responsibilities of the auditor in relation to going concern (including expanded requirements if necessary) (see <i>next slide</i> )	<ul style="list-style-type: none"><li>• <b>Discussion paper</b> focused on expectation gap and targeted towards all audiences</li><li>• <b>Roundtable discussion</b> about expectation gap with investors, preparers, those charged with governance</li></ul>
2	Suggested <b>targeted enhancements</b> to ISA 570 (Revised) <ul style="list-style-type: none"><li>• <b>Communications</b> with those charged with governance and with regulators/other supervisory bodies</li><li>• <b>Better linkage</b> to other ISAs / specific acknowledgment of using work performed in other areas of audit (e.g. risk assessment) to drive work performed related to going concern</li><li>• Suggestion to add auditor reporting <b>decision tree</b> to application material</li></ul>	<ul style="list-style-type: none"><li>• <b>Working group brainstorm</b> to explore how the standard/application material might be clarified</li></ul>



# Expectation Gap – Detailed Themes Explored in Discussion Paper

## # Themes within the Expectation Gap

- 1 In today's environment, **are the current audit procedures in the auditing standards sufficient** to address the risks around going concern?
- 2 Identify if **expectation gap** can be narrowed with standard setting through the following considerations:
  - Enhanced **professional skepticism** requirements, including addition of '**stand back**' requirement
  - Enhanced **auditor reporting** requirements
  - Reconsideration of **the time period required** for the going concern assessment
  - Stakeholder understanding of the **concept of going concern** and the **definition of a material uncertainty**
  - **Enhanced alignment** between **accounting and auditing** standards
  - Addition of **conditional requirements** that, if triggered, require additional audit effort
  - Appetite for **new type of assurance** outside traditional financial reporting audit in relation to going concern
- 3 Consideration of **proportionality** (i.e. does the benefit to the public interest of any added requirements outweigh the cost?)

# Timeline of Planned Activities

Activity	Date
Fraud-focused technology roundtable	9/2/2020
Discussion paper published with 120-day comment period	9/14/2020
Roundtable discussion about expectation gap with investors, preparers, those charged with governance	9/28/2020
Fraud working group brainstorm/discussion	10/5/2020-10/6/2020
Fraud-focused LCE roundtable	10/7/2020
Going Concern working group brainstorm/discussion	Week of 11/16/2020
<b>Feedback on information gathering to Board - Fraud</b>	<b>December 2020</b>
<b>Feedback on information gathering to Board – Going concern</b>	<b>February 2021</b>
<b>CAG Update</b>	<b>March 2021</b>
<b>Fraud project proposal</b>	<b>Q2 2021</b>
<b>CAG Update</b>	<b>September 2021</b>
<b>Going Concern project proposal</b>	<b>Q3 2021</b>