

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual

Meeting Date: September 8-9, 2020

Agenda Item

F

Fraud and Going Concern

Objective of Agenda Item

1. The objective of this Agenda Item is to provide the CAG with an update on the information-gathering activities for the public interest topics of fraud and going concern in an audit of financial statements.

Introduction

2. The IAASB Staff commenced information-gathering activities related to the public interest topics of fraud and going concern in an audit of financial statements, as described in the [IAASB Work Plan for 2020-2021](#), for purposes of determining if, and to what extent, any future standard-setting efforts are necessary in these areas.
3. From a public interest standpoint, the work by auditors on fraud and going concern for the purpose of an audit of financial statements have been highlighted as areas of concern in many jurisdictions recently, and there are various initiatives underway globally to consider what more can be done by auditors in regard to these topics. The information gathering activities undertaken in relation to these initiatives are aimed at exploring whether more robust requirements are needed within the auditing standards, or what else is needed that falls within the IAASB's remit, in today's environment to form an audit opinion.
4. The IAASB Staff has undertaken the following activities:
 - (a) Compiled feedback submitted by various stakeholders on the topics of fraud and going concern through other completed or ongoing IAASB projects, including Auditing Accounting Estimates (ISA 540),¹ Auditor Reporting,² ISA Implementation Monitoring,³ ISA 315 (Revised 2019),⁴ Audits of Less Complex Entities, and the Strategy for 2020–2023 and Workplan for 2020–2021.
 - (b) Considered results from reviews performed in other jurisdictions covering the topics of fraud and going concern in an audit of financial statements (e.g., the [Brydon](#) and [Kingman](#) reviews in the UK and the [2019 Fraud Thematic Review](#) in Canada).

¹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

² As part of the IAASB's project to update and develop new standards related to auditor reporting, limited changes to ISA 570, *Going Concern*, were made focused on the reporting aspects of that standard.

³ The IAASB's ISA Implementation Monitoring Project was completed in July 2013 and was undertaken to determine whether further changes were needed to the ISAs arising from the IAASB's Clarity project. Any [findings](#) as part of this review related to fraud or going concern have been included for consideration as part of the current initiatives on fraud and going concern.

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- (c) Undertook an academic desktop review of relevant research related to the topics of fraud and going concern in an audit of financial statements⁵.
 - (d) Liaised with representatives from the National Standard Setters (NSS) on these topics during the IAASB's annual NSS meeting, discussing initiatives that are ongoing or completed in other jurisdictions.
 - (e) As a follow up from the NSS outreach, the IAASB Staff met with representatives from Japan and the United Kingdom, respectively, to gather more information about (1) the separate fraud standard issued in Japan in 2013, (2) the revised going concern standard issued in the UK in 2019, and (3) the project underway in the UK to determine if changes are required to the fraud audit standard.
5. From the activities detailed in paragraph 3 above, Staff have identified a list of key themes relating to fraud and a list of key themes relating to going concern. In considering these issues identified, there were three aspects that Staff believe needed to be explored more: the impact of technology on fraud, the 'expectation gap' (for both fraud and going concern) and fraud as it relates to audits of less complex entities (LCEs).
6. Using the themes identified, Staff has planned targeted outreach and research activities to further explore those topics as needed.
7. One of the themes that was identified relating to both fraud and going concern relates to the difference between what users expect from the auditor and the financial statement audit in relation to fraud and going concern, and the reality of what an audit requires as described in the auditing standards (the "expectation gap"). A discussion paper (DP) was developed to further explore this specific aspect as it relates to the two topics.
8. The DP was discussed by the IAASB at the August 11, 2020, virtual meeting. Comments received on the DP were considered in a revised draft that was subsequently reviewed in detail by a subset of Board members. All Board members will review the near-final revised Discussion Paper (which is included for reference as a supplement to Agenda Item F) for fatal flaws prior to publication.
9. The DP has been developed to obtain a broad range of stakeholder perspectives on the topic of the expectation gap in regard to fraud and going concern in an audit of financial statements. It is planned that the DP will be published around September 14, 2020 with a 120-day comment period (due date for comments on approximately January 12, 2021).
10. This DP is just one aspect of the Staff's planned activities on the topics of fraud and going concern in an audit of financial statements. To address other key themes identified as described in paragraph 5 above, the Staff is also undertaking other targeted research and outreach activities listed below, which will help inform the decision to pursue any future standard-setting efforts:
- (a) Staff is also arranging the following global virtual roundtable discussions:
 - (i) Expectation Gap and Auditor Reporting Roundtable - Roundtable discussion on the differences between public perceptions about the role of the auditor and the auditor's actual obligations, including the topics within this DP. This roundtable will also include a discussion on auditor reporting to understand whether the standards are being consistently understood and implemented in a manner that achieves the IAASB's

⁵ The academic desktop review included 111 reports related to fraud and 109 reports related to going concern.

intended purpose in developing them so that the IAASB can determine what actions, if any, should be undertaken. The target participants are largely focused on users of the financial statements, including investors, preparers, and those charged with governance, as well as regulators, auditors, the public sector, and others with a background or strong interest in these topics. (Scheduled for September 28, 2020)

- (ii) Technology-Focused Fraud Roundtable - Roundtable discussion on technological advancements in fraud perpetration and identification (Scheduled for September 2, 2020). This roundtable will have been held by the time of the IAASB CAG meeting on September 8-9, 2020.
 - (iii) Audit procedures related to Fraud in audits of Less Complex Entities - Roundtable discussion on how fraud perpetration and identification is unique in an audit of financial statements performed for less complex entities (October 7, 2020)
- (b) Continued coordination with others as necessary, including:
- (i) Other IAASB project workstreams (e.g. Audit Evidence, Audits of Less Complex Entities, Group Audits, Technology, Professional Skepticism, Auditor Reporting post-implementation review, etc.).
 - (ii) International Accounting Standards Board (IASB) as relevant.
 - (iii) International Ethics Standards Board for Accountants (IESBA) for matters that may need to be coordinated.
- (c) Consideration as to whether ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, may require updates based on outreach and research performed related to fraud and going concern efforts.
- (d) Brainstorming for both (1) the Fraud Working Group and (2) the Going Concern Working Group in Q4 2020 to discuss possible updates to the standard for topics where the IAASB has received stakeholder feedback and recognizes further clarity or requirements may be necessary.

11. As each project progresses, further research and outreach will be undertaken as necessary.

Material Presented

For Discussion

Agenda Item F-1 Presentation

Agenda Item F-2 (For reference only) Supplement to Agenda Item F: Near-final version of Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*