

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual

Meeting Date: March 8–9, 2021

Agenda Item C

Fraud and Going Concern Report Back

Objective of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Report back to the Representatives on the matters raised at the September 2020 CAG meeting; and
 - (b) Provide Representatives with a high-level update on the [responses](#) received to the Discussion Paper (DP), [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](#), and activities to date with regard to the topics of fraud and going concern.
2. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Report Back

3. Extracts from the draft September 2020 IAASB CAG meeting minutes, as well as an indication of how the **Working** Groups or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Working Group / IAASB Response
GENERAL COMMENTS	
<ul style="list-style-type: none"> Mr. Dalkin noted that auditors might benefit from a stand-back that requires them to consider all facts collectively and 'see the big picture,' as opposed to only looking at the details. Mr. Dalkin added that if auditors had done this in some of the more high-profile frauds in recent years, they may have identified 'red flags.' Ms. Landell-Mills agreed, emphasizing the importance of auditors standing back and maintaining a questioning mindset in order to deliver an opinion as to a true and fair view, as opposed to solely delivering a compliance 	<p>Point noted.</p> <p>At this stage, the IAASB has not committed to any particular action. The Fraud and Going Concern Working Groups are currently analyzing responses received to the DP, which will inform the direction of future IAASB actions, including any standard-setting and in what areas.</p>

Representatives' Comments	Working Group / IAASB Response
<p>opinion. She added that a stand-back requirement already exists in the UK, and noted that they are now assessing if, and how, transparency can be enhanced with regards to the procedures the auditor performs in order to deliver a true and fair view, including stand back procedures.</p>	
<ul style="list-style-type: none"> Ms. Landell-Mills highlighted concern with use of the phrase "Expectation Gap," noting that it presumes the fault lies with those who hold the expectations (i.e., users of financial statements). She added that the issue may lie with auditors too, for example, through a delivery gap, where auditors fail to deliver what is expected. Messrs. Munter, and Orth and Ms. Robert agreed that the use of the phrase "Expectation gap" could be misleading. However, Mr. Orth encouraged the IAASB staff to continue to explore these concepts in a structured approach. 	<p>Point noted.</p> <p>Ms. Jackson responded that the IAASB intends to take a structured approach to information gathering and have used this term as a means to facilitate the conversation and gather information. Ms. Jackson added that the IAASB had used information gathering activities to frame and define the expectation gap in the IAASB DP, which includes three components: the knowledge gap, the performance gap and the evolution gap. She further explained that the performance gap is where auditors do not do what is required by the standards; the knowledge gap is where there is a difference between what people believe auditors do and the reality of what the standards require; and the evolution gap is where there is a need for change based on evolving expectations.</p>
<ul style="list-style-type: none"> Ms. McGeachy emphasized the importance of coordination with the International Accounting Standards Board (IASB). She also expressed that the SMP Advisory Group would respond to the IAASB's DP issued on these topics. Ms. Robert also agreed on the importance of coordination with the IASB, but highlighted that the ISAs also apply where IFRS is not used as the applicable financial reporting framework. She also emphasized the importance of considering the entire financial reporting ecosystem as there are other participants who may need to do more to narrow the gap, including management and those charged with governance. 	<p>Point noted.</p> <p>Representatives from the IAASB and IAASB Staff have regular meetings with IASB leadership and Staff and will continue to coordinate with them as these initiatives move forward.</p> <p>Ms. Donnelly also added that in the IAASB's DP, the IAASB discusses the importance of the broader financial reporting ecosystem in helping narrow the expectation gap.</p>

Representatives' Comments	Working Group / IAASB Response
<ul style="list-style-type: none"> Mr. Rees acknowledged support for continued coordination between the IAASB and the IASB on the topic of going concern and pointed out that going concern is not currently on the IASB's active agenda. Mr. Rees explained that over the past few months, IASB stakeholders have raised questions on going concern disclosures as well as what basis of preparation is required when a company is not a going concern. Mr. Rees explained that there are some who think there should be more specific disclosures in the International Financial Reporting Standards (IFRS) framework, which will be discussed at a national standard setters meeting later in September 2020. Mr. Rees explained that the IASB will perform its agenda consultation to gather views from stakeholders on whether their active agenda remains appropriate, which will help the IASB determine whether going concern should become more of an agenda priority. 	<p>Point noted.</p> <p>Representatives from the IAASB and IAASB Staff have regular meetings with IASB representatives and will continue to coordinate with them as these initiatives move forward. The IAASB's IASB Liaison Working Group plans to submit a response to the IASB agenda consultation once it is published and will continue to coordinate with the IASB to monitor status as it progresses.</p>
<ul style="list-style-type: none"> Ms. Wei noted that forming a diverse group of working group members from across the globe would be helpful to consider environment factors in capital markets globally. 	<p>Point accepted.</p> <p>The Fraud and Going Concern Working Groups each include representation from across the globe.</p>
<ul style="list-style-type: none"> Mr. Munter encouraged the IAASB to steer the conversation on these topics to help users and auditors themselves understand the objectives and responsibilities of auditors. Mr. Munter noted that the IAASB should focus on what an audit is, as opposed to what it is not. Mr. Munter also expressed concern that as more activities are migrated to a remote approach in the current environment, there may be a negative impact on the auditor's assessment of corporate culture and tone at the top due to lack of face-to-face conversations and in-person interactions which may offer valuable information through tone and body language. Mr. Munter added that this is particularly important since high-profile frauds are often related to an auditor's failure to identify issues 	<p>Point noted.</p> <p>The Fraud and Going Concern Working Groups are currently analyzing responses received to the DP, which will help steer the direction of future IAASB actions. At this stage the IAASB has not committed to any particular action, rather is exploring various possible actions, and is gathering further information about stakeholder's views about possible actions.</p>

Representatives' Comments	Working Group / IAASB Response
with corporate culture and tone at the top.	
Ms. Manabat questioned whether the IAASB could brief the CAG on the highlights of the fraud-focused technology roundtable that occurred on September 2, 2020.	Ms. Donnelly responded that the IAASB will summarize the highlights in a future publication that will be shared with the Representatives once complete. The final document was distributed to the CAG via e-mail on November 30, 2020.
Mr. Yoshii highlighted that the knowledge gap may be narrowed through increased dissemination and transparency of information related to the audit.	Point noted. The Fraud and Going Concern Working Groups are currently analyzing responses received to the DP, which will help steer the direction of future IAASB actions. At this stage the IAASB has not committed to any particular action, rather is exploring various possible actions, and is gathering further information about stakeholder's views about possible actions.
Mr. De Tullio questioned what the end goal of these initiatives are, i.e., whether the IAASB is aiming to revise the auditing standards or promote education for the readers of the financial statements.	Ms. Bahlmann responded that the information-gathering activities will help inform the direction the IAASB's future activities, including whether standard setting is necessary or not. She added that at this point no decisions had yet been made.

Update on Activities for Fraud and Going Concern

4. Below is a summary of the activities that have occurred related to these two separate initiatives since the last update provided to the CAG at the September 2020 meeting:

Fraud:

- (a) The Fraud Working Group met in October 2020 to discuss:
- (i) Feedback submitted by various stakeholders on the topics of fraud and going concern through other completed or ongoing IAASB projects or communicated through outreach meetings held.
 - (ii) Observations from an academic desktop review of relevant research related to fraud in an audit of financial statements.
 - (iii) Feedback received from the virtual roundtable discussions on the topics of fraud and technology, as well as the expectation gap related to fraud in an audit of financial statements.

- (iv) Preliminary views about the direction of certain issues and challenges identified to date with regard to specific requirements in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.
- (b) In December 2020, the Board was provided an update on the above Fraud Working Group activities and members of the Board provided feedback about the preliminary views expressed by the Fraud Working Group on the direction for specific issues and challenges identified to date in ISA 240.
- (c) Comments on the DP, [*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*](#) were due on February 1, 2020. IAASB staff is in process of analyzing these comments with an aim to provide the Board with an update at the April 2021 meeting. A high-level, oral update will be provided to Representatives at the March 2021 CAG meeting (see Agenda Item C.1).

Going Concern:

- (a) The Going Concern Working Group met in January 2021 to discuss:
 - (i) Feedback submitted by various stakeholders on the topics of fraud and going concern through other completed or ongoing IAASB projects or communicated through outreach meetings held.
 - (ii) Observations from an academic desktop review of relevant research related to fraud in an audit of financial statements.
 - (iii) Feedback received from the virtual roundtable discussions held with regard to the expectation gap related to going concern in an audit of financial statements, auditor reporting post-implementation review, and going concern procedures in less complex entities.
 - (iv) High-level summary of results from the Auditor Reporting Post-Implementation Review survey that were relevant to going concern.
 - (v) An update about coordination with the IASB.
- (b) Comments on the DP were due on February 1, 2020.
 - (i) IAASB staff is in process of analyzing these comments with an aim to provide the Board with an update at the May 2021 meeting.

Material Presented

Agenda Item C.1	Fraud and Going Concern —Presentation
Agenda Item C.2	IAASB Fraud Issues Paper December 2020 (For Reference)

Appendix A

Project Details and History

Project: Fraud

Link to IAASB Project Page: [Fraud Project Page](#)

Working Group Members

- Lyn Provost, IAASB Member and Working Group Chair
- Julie Corden, IAASB Member
- Len Jui, IAASB Deputy Chair
- Diane Larsen, IAASB Member
- Imran Vanker, IAASB Member
- Fabien Cerutti, IAASB Technical Advisor

Summary

	IAASB CAG Meeting	IAASB Meeting
Update on information-gathering activities and discussion on proposed DP, <i>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 Actual Obligations</i>	September 2020	August 2020
Update on information-gathering activities for fraud and discussion about preliminary Working Group views on issues and challenges identified to date with regard to specific requirements in ISA 240	N/A	December 2020

IAASB CAG Discussions: Detailed References

Information gathering	<u>September 2020</u> See IAASB CAG meeting material (Agenda Item F).
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Project: Going Concern

Link to IAASB Project Page: [Going Concern Project Page](#)

Working Group Members

- Josephine Jackson, IAASB Member and Working Group Chair
- Isabelle Tracq-Sengeissen, IAASB Member
- Edo Kienhuis, IAASB Member
- Wendy Stevens, IAASB Member
- Rene Herman, IAASB Technical Advisor
- Susan Jones, IAASB Technical Advisor

Summary

	IAASB CAG Meeting	IAASB Meeting
Update on information-gathering activities and discussion on proposed DP, <i>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 Actual Obligations</i>	September 2020	August 2020

IAASB CAG Discussions: Detailed References

Information gathering	<u>September 2020</u> See IAASB CAG meeting material (Agenda Item F).
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