



IAASB
529 5th Avenue
New York, New York 10017

18 November 2020

Re: Discussion Paper – Fraud and Going Concern in an Audit of Financial Statements

Dear IAASB,

On behalf of the International Air Transport Association (“IATA”) Industry Accounting Working Group (“IAWG”), I am writing to comment on Discussion Paper – Fraud and Going Concern in an Audit of Financial Statements, issued by the IASB on September 15, 2020 (the ‘IAASB’s DP’).

IAWG is made up of senior finance professionals from major airlines and represents over 300 airlines. As such, we have been active in the standards setting process for years in order to help achieve the goal of a robust international set of financial reporting standards.

IAWG fully supports the objectives of the IAASB’s DP to address the expectation gap in relation to fraud and going concern in an audit of financial statements. IAWG will only be commenting on Question 2(c) on whether requiring a “suspicious mindset” would contribute to enhanced fraud detection when planning and performing an audit. Our comments are shown on the following pages.

If you would like to discuss our comments further, please do not hesitate to contact Thomas Egan at egant@iata.org.

Yours sincerely,

Thomas Stellpflug
Chairman
IATA IAWG

Donal Cahalan
Vice-Chairman
IATA IAWG



Question 2(c)

Would requiring a "suspicious mindset" contribute to enhanced fraud detection when planning and performing the audit? Why or why not?

- (i) Should the IAASB enhance the auditor's considerations around fraud to include a "suspicious mindset"? If yes, for all audits or only in some circumstances?

IAWG Response: IAWG is unclear how requiring a "suspicious mindset" would contribute to enhanced fraud detection when planning and performing the audit. We believe that it would increase audit related efforts for both the auditor and auditee without a meaningful increase in fraud detection as the existing audit structure already emphasizes the detection of material fraud in relation to the financial reporting being audited.

In an industry such as aviation where an auditor is able to observe physical assets, activities and cash flows that can easily be benchmarked and evaluated against reliable expectations in relation to revenues, costs and margins we would expect that this shift to a "suspicious mindset" would result in significant increase in audit activity designed to satisfy a requirement where the risk of material fraud is low and where the current audit approach is fully effective.

Currently, due professional care requires the auditor to exercise professional skepticism. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. This concept requires an auditor to neither assume that management is dishonest nor assume unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. IAWG believes that this is the appropriate mindset for an auditor undertaking an audit of financial statements.

Revising this language to indicate that the auditor should exercise a "suspicious mindset" appears to move an auditor from a neutral position with regard to management's integrity and one where management is assumed to be dishonest and perhaps even actively engaged in accounting fraud. A suspicious mindset is only appropriate when there is evidence that suggests the presence of fraud or dishonesty.

We believe that the IAASB is not interested in auditors suspecting fraud or dishonesty without evidence that suggests that these conditions may be present. We believe that the existing auditing standards address this situation and call for the auditor to address their concerns. For those reasons we are strongly opposed to the introduction of a requirement that an auditor adopt a "suspicious mindset" in planning and performing the audit. This mindset is only appropriate when sufficient evidence supports valid concerns regarding fraud or dishonesty. We believe that this is consistent with the Brydon Report with regard to their concept of "professional suspicion," a term we find preferable to "suspicious mindset."