

NARROWING THE GAP

IAASB-Facilitated Roundtable Discussion:

- *Exploring the “Expectation Gap” Related to Fraud and Going Concern in Audits of Financial Statements*
- *Feeding Back on the IAASB’s Auditor Reporting Standards*



SEPTEMBER 28, 2020

7:00 AM EDT – 10:00 AM EDT

INTRODUCTION

The Expectation Gap Related to Fraud and Going Concern in Audits of Financial Statements

Recognizing that the external audit is one element within the broader financial reporting ecosystem, the auditor's role in relation to fraud and going concern in audits of financial statements continues to receive heightened public attention, amplified by high-profile corporate failures around the globe in recent years.

Due to the public interest in these topics, the IAASB has commenced information-gathering efforts to help determine the direction of possible new projects in these areas. While there are several matters we are exploring, one aspect we are focusing on is the "expectation gap" (further described in the section "*The Expectation Gap*" below).

New and Revised Auditor Reporting Standards

In response to calls from investors and other users of audited financial statements for more informative and relevant auditor's reports and for greater transparency into the audit, in 2015 the IAASB issued new and revised Auditor Reporting standards. Research, public consultations, and stakeholder outreach, including global roundtables, indicated that enhanced auditor reporting is critical to influencing the perceived value of the audit and confidence in the audited financial statements.

Given the significance of the new and revised Auditor Reporting standards and the importance of improving communication between auditors and users of auditor's reports, the IAASB committed to undertake a post-implementation review of those standards. Discussion at this roundtable is one aspect of the post-implementation review that is underway.

Purpose of the Roundtable

The purpose of this roundtable is: (1) to facilitate discussion among relevant stakeholders on the topic of the expectation gap in order to better understand what is expected of auditors in relation to fraud and going concern in audits of financial statements, and explore perspectives on how the expectation gap may be narrowed in order to inform any future actions by the IAASB, and (2) to obtain stakeholder views on various matters related to the implementation of the IAASB's new and revised auditor reporting standards, how practical challenges and concerns are being addressed, and whether there is global demand for additional information in the auditor's report to improve transparency about the audit.

IAASB Discussion Paper

The IAASB will publish a Discussion Paper (DP) in mid-September 2020 providing important context and background for the roundtable discussions.

Accordingly, the IAASB encourages participants to read the DP once published prior to the roundtable event and encourages participants to respond to this DP.

Auditor Reporting Stakeholder Survey

The IAASB is also consulting on its new and revised auditor reporting standards through a stakeholder survey.

The online Auditor Reporting Stakeholder Survey, including further information on the post-implementation review, can be accessed through the following [link](#).

This survey is open until October 23, 2020. All interested stakeholders are invited to participate in this global request for input. Stakeholders also are encouraged to share the online survey with their respective networks in their jurisdictions that engage with auditors or use auditor reports.

THE EXPECTATION GAP

Recent corporate failures and scandals across the globe have called into question the role and responsibility of the auditor in relation to fraud and going concern in an audit of financial statements. Some examples, include:



Toshiba Corporation (2015), Japan

Overstated operating profits by more than \$1.2 billion in a scandal that began in 2008 and spanned 7 years



Carillion (2018), United Kingdom

The company's collapse left £2 billion owed to its suppliers and £2.6 billion in pension liabilities.



Luckin Coffee (2019), China

Fraudulently inflated sales by 2.1 billion yuan (over \$300 million), which resulted in the company being delisted from the US Nasdaq exchange.



Steinhoff International Holdings NV (2017), South Africa

A fraud investigation uncovered billions of dollars of fictitious/irregular transactions.



Wirecard (2020), Germany

Filed for insolvency in 2020 after admitting that approximately \$2.6 billion of assets on the company's balance sheet likely did not exist.

Parts of this roundtable discussion will be live streamed to the [IAASB YouTube Channel](#), commencing after the first breakout session discussions as detailed in the agenda in Appendix A. The full session including the breakout sessions will be recorded and published to the IAASB website on a future date following conclusion of the session.

Registration is required to attend and participate in the discussions. Once you have registered, you will receive a personalized link to join the roundtable and you will be prompted to add the Zoom meeting reminder with the link to your calendar.

These events, among others, have highlighted a continuing “expectation gap,” or in general terms, a difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. The expectation gap, which is intensified when companies collapse without warning signals, detracts from the public’s confidence and trust in the financial reporting system.

The IAASB is committed to exploring how we can play our part to help narrow the expectation gap, but we cannot solve this problem alone. Each player in the financial reporting ecosystem (which includes management and those charged with governance, internal and external auditors, governments, professional bodies, regulators and oversight bodies, investors, and others) has a role to play and must consider actions they can take to help narrow the gap and improve financial transparency. This roundtable is intended as one activity in the IAASB’s efforts to play its part toward understanding more about these important public interest issues, and will also serve as an opportunity to foster discussion among the broader financial reporting ecosystem.

Purpose of a Financial Statement Audit

Before further exploring the topic of the expectation gap related to fraud and going concern, it is important to remember that the purpose of a financial statement audit as currently described in the International Standards on Auditing (“auditing standards” or “ISAs”) is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an auditor’s opinion on

“Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive.”

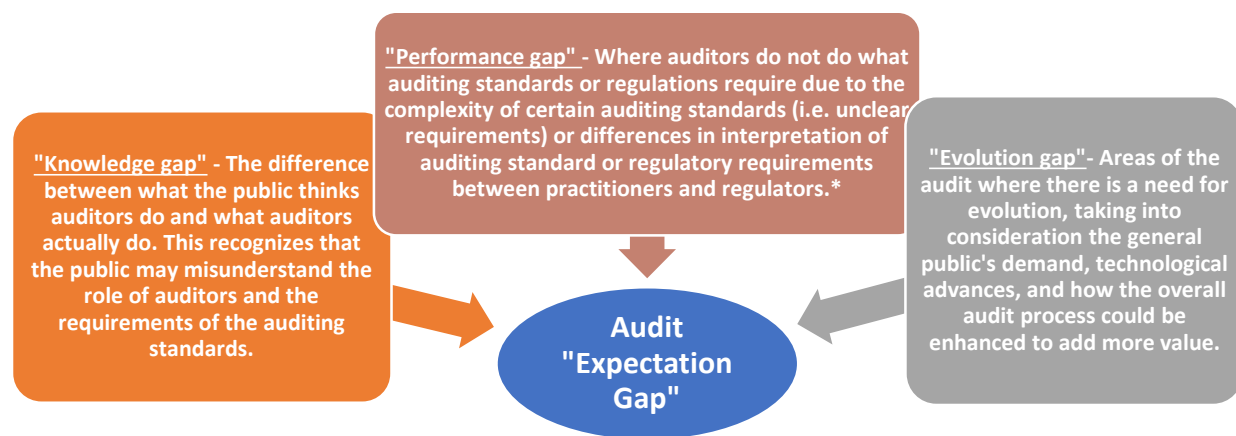
International Standard on Auditing (ISA) 200, paragraph 5

whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. As the basis for the auditor's opinion, the auditing standards require the auditor to obtain **reasonable assurance** about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.¹

Any possible additional or enhanced auditing requirements should be considered in the context of a financial statement audit, and also considering the benefits that will be provided compared with the costs of implementing such actions.

Components of the Expectation Gap

The concept of the expectation gap is further broken down in a May 2019 publication by the Association of Chartered Certified Accountants (ACCA) titled ["Closing the Expectation Gap in Audit,"](#) which describes three components of the expectation gap: the "knowledge gap," the "performance gap," and the "evolution gap," described in the diagram below.



Several other terms and elements of the expectation gap have been referenced in publicly available information, however, the IAASB focuses on the three terms described in the diagram above as these descriptions better facilitate the exploration of areas that are most relevant to the IAASB's work.

The previously referenced DP dives deeper into some specific matters related to each component of the expectation gap that have been raised, including consideration of current audit requirements and possible changes for the IAASB to consider – for example, requiring more forensic-type procedures in audits of financial statements, consideration of procedures related to non-material fraud or third-party fraud, enhanced quality control requirements, consideration of the exercise of professional skepticism and more transparency in the auditor's report related to fraud and going concern, among others. For further details on these and other matters described, please refer to the DP.

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 3 and 5

IAASB Information-Gathering Activities

The IAASB is undertaking a range of information-gathering activities, of which this roundtable is just one aspect, to inform the nature and extent of any future IAASB actions in relation to these topics.

IAASB Roundtable Discussions

This roundtable is the second in a series of three planned virtual roundtable discussions featuring participants from various professional and geographic backgrounds to help inform any future IAASB actions on various topics, as described below:



#	Roundtable	Date/Time
1	Fraud in the Digital Age: Impact of Technology Advancements on Fraud Perpetration and Detection	Was held on September 2, 2020 7:00AM – 10:00AM EDT
2	Narrowing the Gap: <ul style="list-style-type: none">• Exploring the “Expectation Gap” Related to Fraud and Going Concern in Audits of Financial Statements• Feeding Back on the IAASB’s Auditor Reporting Standards	September 28, 2020 7:00AM – 10:00AM EDT
3	Unique Aspects of Fraud in Audits of Less Complex Entities	October 7, 2020 7:00AM – 10:00AM EDT

Other IAASB Activities Related to Fraud and Going Concern in Audits of Financial Statements

In addition to the roundtables described above, we are also undertaking other targeted research and outreach activities to further inform any decisions about future standard-setting or other efforts by the IAASB related to fraud and going concern in an audit of financial statements. As each activity progresses, we will undertake further research and outreach, as necessary. Below are the planned activities underway:

- Analysis and assessment of comments submitted to the IAASB through other standard-setting projects and feedback forums that are relevant to these topics.
- Review of academic research, external publications and outcomes of jurisdiction-level reviews.
- Discussions with national standard setters, particularly in jurisdictions where relevant standard-setting efforts have taken place or are underway.
- The previously referenced Discussion Paper targeted to solicit feedback on the “expectation gap” with regards to fraud and going concern in an audit of financial statements.

AUDITOR REPORTING

In response to investors and other financial statement users who asked for a more informative auditor's report and greater transparency into the audit, the IAASB developed its new and revised Auditor Reporting standards² that became effective for audits of financial statements for periods ending on or after December 15, 2016.³

The key changes aimed at enhancing the communicative value and relevance of the revised auditor's report included:

For audits of financial statements of listed entities or those required by law or regulation (voluntary application allowed for entities other than listed entities)

- A new section in the auditor's report to communicate key audit matters (KAM). KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the current period financial statements.
- Disclosure of the name of the engagement partner.

The description of KAM in the auditor's report requires a reference to the related disclosure(s), if any, in the financial statements and is required to address:

- *Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and*
- *How the matter was addressed in the audit.*

For all audits

- Opinion section required to be presented first, followed by the *Basis for Opinion* section, unless law or regulation prescribe otherwise.
- Enhanced auditor reporting on going concern including:
 - A description of the respective responsibilities of management and the auditor for going concern;
 - A separate section of the auditor's report, under the heading "Material Uncertainty Related to Going Concern," when a material uncertainty exists and is adequately disclosed in the financial statements; and
 - A new requirement to challenge the adequacy of disclosures for "close calls," in the context of the requirements of the applicable financial reporting framework, when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern.
- An affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (Including International Independence Standards).
- An enhanced description of the auditor's responsibilities and key features of an audit.

² The new and revised Auditor Reporting Standards comprise ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*.

³ Some jurisdictions may have adopted the standards with a different effective date.

Together with the new and revised auditor reporting standards, the IAASB also issued a revised standard addressing the auditor's responsibilities related to other information,⁴ which included responsibilities to communicate certain matters in the auditor's report regarding 'other information' included in an entity's annual report.

Other information comprises financial and non-financial information in the annual report, other than the financial statements and the auditor's report thereon. When other information is included in the annual report, the auditor's report includes an "Other Information" section, which is required to include a statement that management is responsible for the other information, identify the other information, clarify that the auditor's opinion does not cover the other information, provide a description of the auditor's responsibilities, and to either describe any uncorrected material misstatement of the other information or state that the auditor has nothing to report.



Given the significance of the new and revised Auditor Reporting standards, and the importance of improving communication between auditors and users of auditor's reports, the IAASB committed to undertake a post-implementation review of those standards. The principal objective of the post-implementation review is to understand whether the standards are being consistently understood and implemented in a manner that achieves the IAASB's intended purpose in developing them so that the IAASB can determine what possible further actions, if any, should be undertaken. Hearing from users of auditor's reports is an essential part of the post-implementation review.

The IAASB is interested in perspectives about various matters related to the implementation of the new and revised auditor reporting standards, how practical challenges and concerns are being addressed, and whether there is global demand for additional information in the auditor's report to improve transparency about the audit. The IAASB also would like to further understand whether there is a global need for wider application of reporting KAMs in the auditor's report, or the need to name the engagement partner for entities that are not listed.

In particular, it is recognized that there is a close link between how going concern is addressed in the audit and auditor reporting related to going concern. Accordingly, as part of the post-implementation review and its separate initiative on going concern, **the IAASB is interested in perspectives** on the interactions of the relevant standards and whether the changes to the standards have enhanced transparency and understanding when a material uncertainty related to going concern exists.

⁴ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

DISCUSSION QUESTIONS FOR ROUNDTABLE

The questions below will be discussed within the breakout sessions detailed in the Roundtable Agenda included in **Appendix A**. The moderator in each breakout session will direct the discussion – participants will need to “raise their hand” using the Zoom functionality if they wish to contribute a response.

Expectation Gap - Fraud and Going Concern in an Audit of Financial Statements

1. What do you think is the main cause of the ‘expectation gap’ related to fraud and going concern in an audit of financial statements?
2. What should be the auditor’s responsibilities with regard to fraud in an audit of financial statements?
3. What should be the auditor’s responsibilities with regard to going concern in an audit of financial statements?
4. Do you believe more transparency is needed about the auditor’s work in relation to *fraud* in an audit of financial statements (going concern is addressed below)?
5. In your view, what may be done (by the IAASB and/or others) to narrow the expectation gap with regards to fraud and going concern in an audit of financial statements? I.e., are there others in the financial reporting ecosystem that have a role to play? If yes, who and what more should be done in relation to narrowing the expectation gap?

New and Revised Auditor Reporting Standards

6. Is the information provided in the new auditor’s report useful, and in what way? Has the new auditor’s report increased your confidence in the quality of the audit performed?
7. Is the information communicated in the KAMs, in the auditor’s reports you have read, meeting your expectations (or how useful have you found the information in providing transparency about KAMs)? What might be done to improve the usefulness of information about KAMs?
8. With regard to the changes to going concern:
 - a) Does the description in the auditor’s report about management’s and the auditor’s respective responsibilities for going concern provide useful information?
 - b) Does the requirement for a separate section, with a separate heading, help to give prominence to those circumstances when a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern?
 - c) What additional information, if any, about going concern might be useful to enhance transparency in the auditor’s report?⁵ Why?
9. In your view, is there any additional information that should be communicated in the auditor’s report to further enhance the understanding of the audit that was performed?

⁵ Refer to section discussing “More Transparency in the Auditor’s Report” of the IAASB’s 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*

ROUNDTABLE AGENDA

Narrowing the Gap

IAASB-Facilitated Roundtable Discussion:

- *Exploring the “Expectation Gap” Related to Fraud and Going Concern*
- *Feeding Back on the IAASB’s Auditor Reporting Standards*

September 28, 2020, 7:00AM EDT – 10:00AM EDT

Roundtable Moderator: Fiona Campbell (IAASB Deputy Chair)

7:00AM – 7:15AM <i>(15 minutes)</i>	IAASB Introduction Introductory remarks by Tom Seidenstein (IAASB Chair) and Josephine Jackson, IAASB Member
7:15AM – 8:05AM <i>(50 minutes)</i>	Breakout Room Discussions <ul style="list-style-type: none"> • Expectation gap – fraud and going concern (50 minutes) Assigned Breakout Rooms: (See Appendix B) <i>[Note: Breakout room discussions will not be live-streamed but will be recorded]</i>
8:05AM – 8:15AM <i>(10 minutes)</i>	Break <i>[Note: YouTube streaming will commence after this break]</i>
8:15AM – 8:45AM <i>(30 minutes)</i>	Debrief and Open Discussion About Key Points Discussed in Breakout Room Discussions <ul style="list-style-type: none"> • Expectation gap – fraud and going concern (30 minutes)
8:45AM – 9:20AM <i>(35 minutes)</i>	Breakout Room Discussions <ul style="list-style-type: none"> • New and revised auditor reporting standards (35 minutes) Assigned Breakout Rooms: (See Appendix B) <i>[Note: Breakout room discussions will not be live-streamed but will be recorded]</i>
9:20AM – 9:30AM <i>(10 minutes)</i>	Break
9:30AM – 9:55AM <i>(25 minutes)</i>	Debrief and Open Discussion About Key Points Discussed in Breakout Room Discussions <ul style="list-style-type: none"> • New and revised auditor reporting standards (25 minutes)
9:55AM – 10:00AM <i>(5 minutes)</i>	Closing Remarks Closing remarks by Tom Seidenstein (IAASB Chair)

APPENDIX B:

PARTICIPANTS

Moderator: Fiona Campbell, *IAASB Deputy Chair (Assigned Breakout: A)*

#	Participant Name	Country	Details	Break out
1	Suresh Kana	South Africa	Chairman of the King Committee on Corporate Governance and Deputy Chairman of the Integrated Reporting Committee of South Africa	A
2	Sven Hayn	Germany	EY Germany, Managing Partner Assurance Strategy, Center for Board Matters	B
3	Pamela Taylor	United Kingdom	KPMG Director, Department of Professional Practice, Accounting & Reporting	C
4	Maggie McGhee	Global	Executive Director, Governance at Association of Chartered Certified Accountants (ACCA)	A
5	Anne Molyneux	Australia	Director of CS International and Vice-Chair of the International Corporate Governance Network (ICGN)	E
6	Datuk Zaiton Mohd Hassan	Malaysia	CEO of Malaysia Professional Accountancy Centre, Chairman of the Board of Governance and Audit Committee of Lembaga Tabung Haji and Sime Darby Plantation Berhad	A
7	Merran Kelsall	Australia	Non Executive Director and Deputy President at CPA Australia with extensive Board and Governance experience	B
8	Robyn Erskine	Australia	Partner in Brooke Bird, a specialist restructuring insolvency and turnaround firm, and Director at CPA Australia	C
9	Paul Chan	Malaysia	President and Founding Board Member of the Malaysian Alliance of Corporate Directors (MACD) and Executive Committee Member of Global Network of Director Institutes (GNDI)	D
10	Mario Abela	United Kingdom	Director, Redefining Value at the World Business Council for Sustainable Development	E
11	Doug Prawitt	US	Accounting Professor at Brigham Young University	B
12	Professor Annette Köhler	Germany	Full Professor for Accounting and Auditing at the University of Duisburg (Germany) with extensive audit committee experience	A
13	Professor Mak Yuen Teen	Singapore	Associate professor of accounting and former Vice Dean of the NUS Business School, National University of Singapore	C
14	Yuri Zwick	US	Center for Audit Quality (CAQ) Professional Practice Fellow	D
15	Peter Funck	Global	Chief Audit Executive at Trafikverket in Sweden	E

16	Michael Porth	Global	Chair of the Auditing Subcommittee of IOSCO's Committee 1 on Issuer Accounting, Auditing and Disclosures	B
17	Robert J. De Tullio	Global: Basel Committee on Banking Supervision	Basel Committee on Banking Supervision, Senior Policy Accountant	C
18	Mary Katherine Kearney	Global: Basel Committee on Banking Supervision	Basel Committee on Banking Supervision, Professional Practice Fellow	D
19	Takaaki Nimura	Japan	Outside Audit & Supervisory Board Member, Chugai Pharmaceutical Co., LTD.	E
20	Kenta Fukami	Japan	Senior Policy Analyst with the OECD's Division of Corporate Finance and Corporate Governance	A
21	Keiko Mizuguchi	Japan	Japan Credit Rating Agency	B
22	Charles Henderson	United Kingdom	Director, UK Shareholder' Association	D
23	Martijn Bos	Netherlands	Corporate Reporting and Engagement Specialist, Eumedion	C
24	Ralph Weinberger	United States	PwC Global Assurance Methodology Leader	E
25	Jim Sylph	Canada	Quality Control Consultant at Russell Bedford International	D
26	Valdir Coscodai	Brazil	Technical director and Vice President of the Brazilian Institute of Auditors in Brazil (IBRACON) and Partner, PwC Brazil	D
27	Jorge Manoel	Brazil	Corporate Governance Expert, IBGC Finance and Accounting Committee, Former PwC Brazil Partner	B
#	Official Observer Name	Country	Details	Break out
1	PIOB representative(s)	Global	PIOB representative(s)	A
2	IESBA observer	Global	IESBA observer	B
3	Megan Zietsman	United States	Chief Auditor, PCAOB	D
4	Rob Choromanski	United States	Professional Accounting Fellow, Office of the Chief Accountant at U.S. Securities and Exchange Commission	B
5	Henry Rees	Global	IASB Technical Staff	C
6	J. Robert Brown, Jr.	Global	Chair - Chair of IFIAR's Investor and Other Stakeholder Working Group	E
7	Stacy Hammett	Global	Member of IFIAR's Standards Coordination Working Group	A
8	Angelo Giardina	Canada	Director, Thought Leadership, Canadian Public Accountability Board	C
#	IAASB Members and Staff Observers	Country	Details	Break out
1	Tom Seidenstein	United States	IAASB Chair	All
2	Fiona Campbell	Australia	IAASB Deputy Chair	A
3	Josephine Jackson	United Kingdom	IAASB Member	C

4	Julie Corden	Canada	IAASB Member	D
5	Roger Simnett	Australia	IAASB Member	E
6	Isabelle Tracq-sengeissen	France	IAASB Member	D
7	Len Jui	China	IAASB Member	A
8	Bob Dohrer	United States	IAASB Member	C
9	Eric Turner	Canada	IAASB Member	A
10	Sue Almond	United Kingdom	IAASB Member	D
11	Dan Montgomery	United States	IAASB Senior Advisor - Technical Projects	B
12	Sara Ashton	United States	IAASB Technical Advisor	E
13	Susan Jones	United States	IAASB Technical Advisor	B
14	Antonios Diolas	United Kingdom	IAASB Technical Advisor	B
15	Denise Weber	United States	IAASB Technical Advisor	D
16	Willie Botha	United States	IAASB Technical Director	E
17	Beverley Bahlmann	United States	IAASB Deputy Director	A
18	Brett James	United States	IAASB Deputy Director	D
19	Kalina Shukarova Savovska	United States	IAASB Principal	B
20	Natalie Klonaridis	United States	IAASB Principal	C
21	Jasper van den Hout	United States	IAASB Principal	E
22	Angela Donnelly	United States	IAASB Staff Fellow	All
23	James Gunn	United States	Managing Director, Professional Standards, IAASB IESBA IAESB IPSASB	C

Breakout Session Moderators and IAASB Staff Representatives

Breakout Room	Moderator	IAASB Staff Representative
A	Fiona Campbell	Beverley Bahlmann
B	Dan Montgomery	Kalina Shukarova Savovska
C	Josephine Jackson	Natalie Klonaridis
D	Julie Corden	Brett James
E	Willie Botha	Jasper van den Hout