

Meeting: IAASB
Meeting Location: Virtual
Meeting Date: August 11, 2020

Agenda Item

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

Objectives of Agenda Item

1. The objectives of this Agenda Item are to discuss the content of 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 Actual Obligations*, set out in **Agenda Item 1-A**, and agree to be able to finalize the DP and publish for public consultation.

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. To date, 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.

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*

- (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).
 - (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 identified 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"). The DP that has been developed further explores this specific aspect as it relates to the two topics.
- Further, Staff determined it would be useful to gather views on possible solutions that have been proposed by various stakeholders in order to gauge the desire for various alternatives, bearing in mind the proportionality of increasing the auditor's work effort (costs weighed against potential benefits).
8. The Discussion Paper has been developed to obtain a broad range of stakeholder perspectives on this aspect. It is planned that the DP be published around August 31, 2020 with a proposed 60-day comment period (due date for comments would be due October 30, 2020).
9. It is proposed that the DP will be out for public consultation for 60 days. Notwithstanding the IAASB has been lengthening consultation periods in the current environment, this DP is focused on a limited aspect of fraud and going concern. In addition, this shorter consultation period will help achieve the goals of the targeted timeline for these initiatives.
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 4 above, the Staff is also undertaking other targeted research and outreach activities listed below, which will also help inform the decision to pursue any future standard-setting efforts:

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

- (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 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)
 - (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.

Structure of Discussion Paper

12. The draft DP includes:

- (a) *Chair's Foreword*—emphasizing the IAASB's commitment to this work and highlighting some of the key messages that are built into the DP.
- (b) *Introduction*—emphasizing that the focus of the DP is to gather stakeholder perspectives about the role of the auditor in relation to fraud and going concern procedures in an audit of financial statements, and understand stakeholder's views on possible solutions to help narrow the gap

between stakeholder expectations and what auditors do. Also describes the other activities planned to be undertaken by the IAASB for purposes of the fraud and going concern projects.

- (c) *Background*—describing the current financial landscape that has led to increased stakeholder focus on the expectation gap related to fraud and going concern in an audit of financial statements, an explanation of what the expectation gap is, a reminder as to the purpose of a financial statement audit, and next steps requested of responders.
- (d) *Fraud*—this section sets out the responsibilities of the entity and of the auditor with regard to fraud in an audit of financial statements, explores stakeholder views on the various components of the expectation gap, and describes possible solutions to help narrow the expectation gap.
- (e) *Going Concern*—this section sets out the responsibilities of the entity and of the auditor with regard to going concern in an audit of financial statements, explores stakeholder views on the various components of the expectation gap, and describes possible solutions to help narrow the expectation gap.
- (f) *Other Matters Relevant to Both Fraud and Going Concern*—this section explores certain matters and possible solutions that are relevant to both the topics of both fraud and going concern, including professional skepticism and auditor reporting.
- (g) *Appendices*—appendices are included to (1) include a full list of questions for respondent consideration, (2) describe other matters that have been brought to the IAASB's attention but are scoped out of the DP, and (3) provide illustrative alternatives for how changes may be developed in future standard setting activities.

A full list of the questions will be published as a supplement to the Discussion Paper to facilitate respondents' input.

Approach to Submitting Responses

- 13. To facilitate a quick turnaround on the analysis of the input to the DP, respondents will be asked to submit their comments electronically by responding to the questions using a "Submit comments" link.
- 14. Questions will generally be asked in a survey format that allows the respondent to answer each question directly through the online interface, as opposed to submitting a letter. In addition, each question will have space for free text so that respondents can provide further details on their responses.

Matters for IAASB Consideration

1. The IAASB is asked for its overall views about the DP presented in **Agenda Item 1-A**. In particular, Staff would like to obtain the Board's views on:

Content

- (a) Are there any relevant issues missing from the DP?

Clarity

- (b) Whether the draft DP is sufficiently clear and understandable; and
 - (c) Whether the questions are appropriate to solicit input from a broad range of stakeholders.
2. The Board is asked:
 - (a) Whether there are any other matters that should be highlighted in the DP related to the topic of the 'expectation gap.'
 - (b) To provide views on the planned length of the comment period.
 3. The Board is asked whether it agrees that the DP can be finalized and published for public consultation.
 4. Are there any other matters related to the fraud and going concern information-gathering activities that should be further considered as the information gathering activities related to fraud and going concern are progressed?

Material Presented

For Discussion

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| Agenda Item 1-A | Draft Discussion Paper: <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> |
| Agenda Item 1-B | Draft Supplement to Discussion Paper: Complete List of Questions Raised |
| Agenda Item 1-C | Presentation |